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EDUCATIONAL EXCELLENCE ACT OF 1989

HEARING

BEFORE THE

SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES

OF THE

COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

S. 695

TO PROMOTE EXCELLENCE IN AMERICAN EDUCATION BY RECOGNIZING AND REWARDING SCHOOLS, TEACHERS, AND STUDENTS FOR THEIR OUTSTANDING ACHIEVEMENTS, ENHANCING PARENTAL CHOICE, ENCOURAGING THE STUDY OF SCIENCE, MATHEMATICS, AND ENGINEERING, AND FOR OTHER PURPOSES

JUNE 13, 1989
WASHINGTON, DC

Printed for the use of the Committee on Labor and Human Resources

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EDUCATIONAL EXCELLENCE ACT OF 1989

TUESDAY, JUNE 13, 1989

U.S. Senate,
Subcommittee on Education, Arts and Humanities,
of the Committee on Labor and Human Resources,
Washington, DC.

The committee met, pursuant to notice, at 10:02 a.m., in room SD-430, Dirksen Senate Office Building, Senator Claiborne Pell (chairman of the subcommittee) presiding.

Present: Senators Kennedy, Pell, Simon, Hatch, Kassebaum, Jeffords, Thurmond, and Cochran.

Senator **Pell**. The Subcommittee on Fducation, Arts and Humanities will come to order.

This hearing on S. 695, the Excellence in Education Act, will come to order.

It is refreshing indeed to have administration come forward with a positive, constructive series of initiatives in education. I have cosponsored the President's initiative as a signal that I stand ready to grasp the extended hand of friendship and cooperation offered by our President.

The partnership between the Executive and Legislative Branches is crucial to bringing new life to the small, but vital Federal role in education.

Mr. Secretary, we welcome you, and hope you will convey to the President our resolve to make this a working educational partnership. As you know, I have some concerns that the administration's proposals are not sufficiently targeted to the most needy schools and most needy students, too. I look forward, therefore, to your testimony and to that of our panelists.

I think that you should know at the outset that our goal is to give the most serious consideration to your proposals, to improve upon them where we believe we can, and to arrive at a bill that has broad bipartisan support. Our good spirit in this regard, and one seriousness of purpose is demonstrated by the fact that we are working from your bill, the administration bill, and not from one that we have crafted ourselves.

I applaud the efforts you are taking to crack down on the student loan defaults and look forward to being able to devote a portion of today's hearing on your proposals. The new regulations are tough but, I believe, fair.

I must tell you, though, that if my concern that your efforts might be hampered by questions about the data upon which default rates have been calculated. This is, as I understand it, preliminary data from which you are working, and I would trust and urge that the new regulations not be implemented until we have full confidence in the accuracy of the data and are comfortable in using it to take stern action.

Senator PELL. We are very glad to have you with us, Mr. Secretary, and I believe we have Dr. Roberta B. Dunn, the deputy assistant secretary of the student aid programs, and also Mr. Charles Kolb, the acting deputy undersecretary for planning, budget and evaluation.

Both of these people have been well known and long-time friends of the committee in whom we have trust, and we are very glad they are working with you.

Mr. Secretary.

STATEMENT OF HON. LAURO F. CAVAZOS, SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC, ACCOMPANIED BY CHARLES E.M. KOLB, DEPUTY UNDERSECRETARY FOR PLANNING, BUDGET AND EVALUATION, AND DR. ROBERTA B. DUNN, DEPUTY ASSISTANT SECRETARY FOR STUDENT FINANCIAL ASSISTANCE, OFFICE OF POSTSECONDARY EDUCATION

Secretary CAVAZOS. Thank you very much, Mr. Chairman.

I am certainly pleased to be here today to present President Bush's legislative proposals on the Educational Excellence Act of 1989 and the department's student loan default initiative.

Now I would like to summarize my statement, if I could, Mr. Chairman, and ask that the entire statement be included in the record.

Senator PELL. Without objection.

Secretary CAVAZOS. Thank you, sir.

It is gratifying to be able to count on both you and Senator Kassebaum as cosponsors of the Educational Excellence Act. In fact, thanks to the dedicated efforts of Senator Kassebaum and Mr. Goodling in the House, we now have a total of 36 cosponsors in the Senate and 86 in the House.

Last year, you and your colleagues in the 100th Congress produced the landmark Hawkins-Stafford Elementary and Secondary School Improvement Amendments of 1988. That law advances the quality of Federal elementary and secondary education programs in many significant ways. It improves program accountability in Chapter 1 and Drug-Free Schools programs, expands parental choice through a reauthorized magnet schools program, provides greater flexibility to school districts in implementing bilingual education programs, enhances parental involvement in programs for disadvantaged children and stimulates educational reform innovation.

America needs the Educational Excellence Act, and let me tell you why I firmly believe this to be the case.

You've heard me talk about our education deficit in this country. The fact that we now outspend the rest of the world in education does not, in any way, make up for the fact that when it comes to solid results, our students and our schools simply aren't getting the job done.

Despite some promising State reform efforts, this year's State Education Performance Chart, known as the "Wall Chart", indicates that our performance on the whole is stagnating. The State and local-level reforms that have been implemented across the country in the wake of "A Nation at Risk" are exciting and positive, but much still remains to be done. Those reforms must continue, must expand, must take root, and most importantly of all, they must work. And that is what the President's agenda is all about and that is precisely why I am before you today to urge passage of the President's Educational Excellence Act of 1989.

If you look closely at the components of this bill you will see that, for the most part, they are intended to help stimulate and encourage education reform through Federal seed money, targeted awards and grants, and expanded research that we hope will produce innovative and successful strategies for reform.

Our proposed legislation would complement the work of the 100th Congress in several important ways:

First, it is based on the principle that Federal dollars should help those most in need;

Second, it must encourage schools and teachers to strive for excellence and success by recognizing and rewarding educational progress;

Third, it would extend to parents who do not have the opportunity to exercise choice in selecting schools for their children;

And finally, it would encourage the development of flexible systems to enrich the ranks of the teaching profession.

Both President Bush and I are very proud of this legislation. The department and the White House worked closely together in shaping this bill, and we certainly appreciate the favorable reception you, Mr. Chairman, and others have afforded this proposal. We want to work closely with you to ensure that these proposals receive serious consideration and, of course, speedy enactment.

The Educational Excellence Act of 1989 contains seven new programs:

The *Presidential Merit Schools Program* would provide cash awards to schools based on criteria related to improvement of student performance in basic skills, creation of a safe, drug-free school environment, and reduction of the drop-out rate.

Magnet Schools of Excellence would bring the many recognized benefits of magnet schools within the reach of the community that might not qualify for desegregation-related Magnet Schools Assistance programs recently authorized by the Hawkins-Stafford Amendments.

Under the program for *Alternative Certification of Teachers and Principals*, the department would provide assistance to States that are interested in expanding the pool of talent from which they may draw teachers and principals.

Through the *Presidential Awards for Excellence in Education*, awards of $5,000 each would be given to teachers who meet the highest standards of excellence.

Drug-Free Schools Urban Emergency Grants would supplement programs currently supported by the Drug-Free Schools and Community Act.

And for *Historically Black Colleges and Universities*, the President's bill would amend the Higher Education Act to provide additional support for matching endowment grants.

The *National Science Scholars Program* would provide undergraduate college scholarships of up to $10,000 a year to students who have demonstrated excellence and achievement in the life, physical, or computer sciences, mathematics or engineering.

Mr. Chairman, in concert with the many fine programs authorized by the Hawkins-Stafford Amendments, the programs contained in the Educational Excellence Act of 1989 would greatly advance our efforts to achieve a better-educated America.

I urge this committee and the Congress to take prompt and favorable action on this legislation. I also urge you to take a look around you to see the many things that are occurring throughout our States. Many of your own States, pursuing innovations in education, are making a real difference. I have cited several examples in the statement that I have submitted for the record.

The President and I want to encourage this development through reforms, rewards, grants, research and the innovation that you will find in the Educational Excellence Act of 1989.

Finally, Mr. Chairman, I would like to touch briefly on a subject that I know is of vital concern to the members of this committee.

To address the underlying causes of student loan defaults, I have promulgated final regulations on default reduction. These reductions and additional regulatory, legislative and administrative measures will help address the major causes of defaults in all sectors of postsecondary education.

These measures build on default reduction actions previously taken by the department. For instance, in 1986 we instituted stricter due-diligence servicing and collection requirements by lenders and guarantee agencies. Also, we have recently hired new staff in the Office of Student Financial Assistance to review the compliance of schools, lenders, and guarantee agencies with requirements of the Guaranteed Student Loan Program.

Schools must shoulder their fair share of the responsibility. We believe the principal school-related causes of the high default rate are:

(1) Enrollment of, and granting Federal student aid to, students lacking true ability to benefit from the training offered;

(2) inadequate educational and support services;

(3) inadequate job placement efforts by institutions; and

(4) failure to inform student borrowers of their rights and obligations regarding student loans.

The regulatory and administrative actions I announced on June 1 are designed to address these problems, complementing our prior default reduction activities.

Through legislation, we are proposing changes in the ability-to-benefit provision so that, in order to be eligible for Federal aid, a student without a high school diploma or a GED would have to pass a test on his or her ability to benefit from the educational courses before that person enrolls. These tests, in contrast to current practice, would be designed and administered by an independent party designated by the Secretary.

Our legislative proposals would also prohibit schools receiving Federal student aid funds from using commissioned personnel to recruit or admit students.

We will also propose to expand the *pro rated* tuition refund requirement for borrowers at schools with over a 30 percent default rate by making it apply to all Title IV aid recipients, not just to student loan borrowers. And these proposals, along with the rest of our legislative package and our regulatory approach, should help arrest the growing default rate and ensure that the funds in postsecondary education go for quality education and training.

This concludes my statement, Mr. Chairman. Mr. Kolb, Dr. Dunn, and I would be pleased to answer your questions, sir.

[The prepared statement of Secretary Cavazos follows:]

PREPARED STATEMENT OF SECRETARY CAVAZOS

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present President Bush's legislative proposals on the Educational Excellence Act of 1989 and the department's student loan default initiative. With me today are Charles Kolb, Deputy Under Secretary for Planning, Budget and Evaluation, and Roberta Dunn, Deputy Assistant Secretary for Student Financial Assistance.

Mr. Chairman, it is gratifying to be able to count on both you and Senator Kassebaum as cosponsors of the Educational Excellence Act. In fact, thanks to the dedicated efforts of Senator Kassebaum and Mr. Goodling in the House, we now have a total of 36 cosponsors in the Senate and 86 in the House.

Last year, you and your colleagues in the 100th Congress produced the landmark Hawkins-Stafford Elementary and Secondary School Improvement Amendments of 1988. That law advances the quality of Federal elementary and secondary education programs in many significant ways. It improves program accountability in the Chapter 1 and Drug-Free Schools programs, expands parental choice through a reauthorized magnet schools program, provides greater flexibility to school districts in implementing bilingual education programs, enhances parental involvement in programs for disadvantaged children, and stimulates educational reform and innovation.

America needs the Educational Excellence Act. Let me tell you why I firmly believe this to be the case. You've heard me talk about our "education deficit" in this country. The fact that we now outspend the rest of the world in education does not, in any way, make up for the fact that when it comes to solid results, our students and our schools overall simply aren't cutting it. Despite some promising State reform efforts, this year's "State Education Performance Chart"—popularly known as the "Wall Chart"—indicates that our performance on the whole is stagnating. I said when the "Wall Chart" was released, and I'll repeat it to you today—the situation scares me; it should scare you too.

The State and local level reforms that have been implemented across this country in the wake of *A Nation At Risk* are exciting and positive, but much still remains to be done. These reforms must continue, must expand, must take root, and—most important of all—must work. That is what President Bush's agenda is all about, and that is precisely why I'm before you today urging passage of the President's Educational Excellence Act of 1989. If you look closely at the components of this bill, you'll see that, for the most part, they are intended to help stimulate and encourage education reform through Federal seed money, targeted awards and grants, and expanded research that we hope will produce innovative and successful strategies for reform.

Our proposed legislation would complement the work of the 100th Congress in several important ways. First, it is based on the principle that Federal dollars should help those most in need. Second, it would encourage schools and teachers to strive for excellence and success by recognizing and rewarding educational progress. Third, it would extend to parents who do not now have the opportunity to exercise choice in selecting schools for their children. And finally, it would encourage the development of flexible systems to enrich the ranks of the teaching profession.

Both President Bush and I are very proud of this legislation. The department and the White House worked closely in shaping this bill, and we certainly appreciate the favorable reception you, Mr. Chairman, and others have afforded our proposals. We want to work closely with you to ensure that these proposals receive serious consideration and, of course, speedy enactment.

Let me just take a few minutes now and explain to you briefly the details of the seven new programs in the Educational Excellence Act of 1989:

- The *Presidential Merit Schools* program would provide cash awards to schools based on criteria related to improved student performance in basic skills, creation of a safe and drug-free school environment, and a reduction in the dropout rate. The legislation would authorize $250 million for fiscal year 1990, increasing to $500 million by fiscal year 1993. Funds would be allocated to States based in part on school-age population and in part on each State's share of funds from the Chapter 1 Basic Grant Program. Many schools are struggling against difficult odds to create an environment for their students that is conducive to learning. I believe we should recognize and reward the efforts of those schools to improve and provide encouragement for other schools to follow their lead. The point here is a simple one—not to reward schools that have already "made it" but to reward those that are "making it" right now.
- *Magnet Schools of Excellence* would bring the many recognized benefits of magnet schools within the reach of communities that might not qualify for the desegregation-related Magnet Schools Assistance program recently reauthorized by the Hawkins-Stafford Amendments. This complementary program would have the dual purposes of promoting open enrollment through parental choice and strengthening the knowledge of elementary and secondary students in academic and vocational subjects. To ensure that funds are available to benefit children who are most in need, the department would encourage applications that recognize the potential of educationally disadvantaged children to benefit from magnet schools programs. I'm sure that all of you have seen the stories in the *Washington Post* and perhaps in your local newspapers about those parents who line up for days outside local magnet schools in order to enroll their children. They do so for a reason—magnet schools work, and George Bush and I want to find ways to expand magnet schools and other examples of choice all across this country.
- Under the program for *Alternative Certification of Teachers and Principals*, the department would provide assistance to States that are interested in expanding the pool of talent from which they draw teachers and principals. An authorization of $25 million, for fiscal year 1990 only, would provide one-time grants to States to support such activities as training, program development, and evaluation. This program would offer an incentive for States to design flexible certification systems to draw into education talented professionals who have demonstrated their subject matter competence or leadership qualities in fields outside education. I believe many of our country's scientists, engineers, and business men and women would make outstanding and talented educators, and I would like to see our school children benefit from their expertise.
- Through *Presidential Awards for Excellence in Education*, awards of $5,000 each would be given to teachers who meet the highest standards of excellence. Our schools are blessed with many teachers who are highly motivated and committed to excellence. These teachers succeed not only in imparting subject matter knowledge, but also in instilling in their students an appreciation of the value and importance of education, and for this I believe they should be rewarded. For these Presidential teacher awards, the legislation would authorize $7.6 million annually.
- *Drug-Free Schools Urban Emergency Grants* would supplement programs currently supported by the Drug-Free Schools and Communities Act. Urban school districts are often disproportionately affected by drug trafficking and abuse. I'm sure you'd agree with me that the presence of drugs in our schools—and the violence that so often attends drugs—is a national tragedy. This program would authorize $25 million per year for one-time grants to urban districts experiencing the most severe drug problems. These grants would enable school districts to undertake the kind of comprehensive action plans that we believe are essential if they are to eliminate the serious drug problems that affect the schools and students within their boundaries.
- For *Historically Black Colleges and Universities*, the President's bill would amend the Higher Education Act to provide additional support for endowment matching grants. Historically Black Colleges and Universities play a vital role in the American system of higher education, yet many of them are weaker financially than comparable institutions. Over a four-year period, the bill would authorize $60 million for grants that could be used to match private sector contributions to the schools' endowment funds. Income from the endowment funds could be used to improve academic programs as well as institutional administration.

- The *National Science Scholars* program would provide undergraduate college scholarships of up to $10,000 a year to students who demonstrate excellence and achievement in the life, physical, or computer sciences, mathematics, or engineering. American students are just not choosing to enter these professions in large enough numbers, and the country is in danger of suffering a serious shortfall of scientists, mathematicians, and engineers by the year 2000. I believe this program could help us avert that danger. The legislation would authorize $5 million for fiscal year 1990, increasing to $20 million by fiscal year 1993. Each year, the President would select 570 scholarship recipients after considering the recommendations of an advisory board and Members of Congress.

Mr. Chairman, in concert with the many fine programs authorized by the Hawkins-Stafford Amendments, the programs contained in the Educational Excellence Act of 1989 would greatly advance our efforts to achieve a better-educated America. I urge this committee and the Congress to take prompt and favorable action on this legislation. I also urge you to take a look around you, to look at what's going on in many of your own States.

Rhode Island recognizes the principle of merit schools in its "Governor's Schools Program," in which certain schools in high-risk areas receive additional funding to improve the quality of their education. Providence has a successful magnet schools program, and there's a "Best and Brightest" program that awards funds to students studying to be teachers.

The Kansas legislature has appropriated $2.5 million for Educational Excellence grants and At-Risk Students grants. The State is active in designing substance abuse prevention curricula and has an Alternative Certification program at Kansas State University for rural citizens.

In Ohio, magnet schools programs are underway, and the legislature there has seen bills introduced for programs to free excellent school districts from certain State requirements and to establish tests that can be compared across districts to help improve accountability.

In Hawaii, the State Board of Education annually selects 50 teachers and two principals to receive $2,000 awards each, based on nominations by teachers and school districts.

Illinois has a statewide math and science magnet high school. It is also studying various choice programs across the country to see what's effective.

Mississippi has a statewide math and science magnet school, as well as, several programs that recognize outstanding schools.

In Maryland, 12 percent of Prince Georges County's 104,000 students are enrolled in magnet schools. Montgomery County alone has some 14 magnet schools. The Governor's Academy for Mathematics, Science, and Technology awards $1,200 stipends to teachers who continue their education in math and science. Alternative teaching programs may be found at the University of Maryland and Western Maryland College.

Utah's Governor has proposed a "Schools of Progress" program and is piloting a privately run teacher certification program at Brigham Young University.

I'm sure that Senator Thurmond is proud of the many excellent reforms that are underway in South Carolina, a State that is one of the leaders in education reform and innovation. South Carolina has, for example, programs for rewarding schools, districts, and vocational centers that improve student performance, as well as a Teacher Incentive program to reward outstanding teachers.

I could go on, but my point here should be obvious—many of your own States are pursuing innovations in education that are making a difference. The President and I want to encourage this development through the reforms, rewards, grants, research, and innovations that you will find in the Educational Excellence Act of 1989.

Finally, Mr. Chairman, I would like to touch briefly on a subject that I know is of vital concern to the members of this committee. To address the underlying causes of student loan defaults, I have promulgated final regulations on default reduction. Those regulations, and additional regulatory, legislative, and administrative measures, will help address the major causes of default in all sectors of postsecondary education.

These measures build on default reduction actions previously taken by the department. For instance, in 1986 we instituted stricter "due diligence" servicing and collection requirements for lenders and guarantee agencies. Also, we have recently hired new staff for the Office of Student Financial Assistance to review the compliance of schools, lenders, and guarantee agencies with requirements of the GSL Program.

Our initiative is based on the principle that each of the many participants in the GSL Program bears a responsibility for reducing defaults. Taking all these steps together, I believe we have a tough, but fair and workable, solution to the costly problem of student loan defaults. And when I say "costly" I mean it in two senses: (1) the cost to the taxpayer in wasted resources, and (2) the cost to those students who are being cheated out of an education. This is why my approach has also included strong measures that will enhance "consumer protection."

Schools must shoulder their fair share of the responsibility. We believe the principal school-related causes of the high default rates are: (1) enrollment of, and granting Federal student aid to, students lacking true ability to benefit from the training offered; (2) inadequate educational and support services; (3) inadequate job placement efforts by institutions, and (4) failure to inform student borrowers of their rights and obligations regarding student loans. The regulatory and administrative actions I announced on June 1 are designed to address these problems, complementing our prior default reduction activities.

Through legislation, we are proposing changes in the "ability to benefit" provisions so that, in order to be eligible for Federal student aid, a student without a high school diploma or a GED would have to pass a test of his "ability to benefit" from the educational courses before he enrolls. These tests, in contrast to current practice, would be designed and administered by an independent third party, designated by the Secretary. In this way, our proposal would limit drastically the opportunity for unscrupulous schools to exploit the "ability to benefit" provision at the expense of those people it was intended to help.

The principle means that schools use to draw many thousands of unsuspecting victims into programs from which they cannot benefit, through misrepresentations and other unscrupulous practices, is the infamous commissioned salesman. Accordingly, our legislative proposals would prohibit schools receiving Federal student aid funds from using commissioned personnel to recruit or admit students.

We will also propose to expand the *pro rata* tuition refund requirement for borrowers at schools with over a 30 percent default rate, by making it apply to all Title IV aid recipients, not just student loan borrowers. This would reduce further the incentive for schools to concentrate on enrollments rather than completions. These proposals, along with the rest of our legislative package and our regulatory approach, should help arrest the growing default rate and ensure that funds spent in postsecondary education go for quality education and training.

This concludes my prepared statement, Mr. Chairman. Mr. Kolb, Dr. Dunn, and I would be pleased to answer your questions.

Senator PELL. Thank you very much indeed.

I would now turn to our ranking minority member, Senator Kassebaum, for any statement she would care to make.

Senator KASSEBAUM. Thank you, Mr. Chairman.

I would just ask that my full statement be made a part of the record.

I would like to commend you, Mr. Chairman, for your bipartisanship in this effort not only for cosponsoring the President's educational proposals but also for holding hearings and moving this initiative right along.

I would also say that the importance of excellence in education cannot be overstated. I am so pleased that President Bush has made it a pillar of his initiatives, having said he wanted to be the "Education" President. As you have heard me say, Mr. Secretary, I think it's a great opportunity for him to utilize the office of the presidency as a bully pulpit, because our Nation has enjoyed an exceptionally strong educational system.

But we can't afford to rest on our laurels, and no one has addressed this or understands it better than you, Mr. Secretary. As the world is becoming more interdependent and more competitive, we must rise to the challenges that this presents. The jobs of the future will increasingly require skilled workers who are capable of adapting to rapidly changing technologies.

I would also like to commend not only the President's advocacy of education but also the initiatives in the area of guaranteed student loan defaults. You have addressed that, and we will be addressing it further, but I think it's very important.

Mr. Chairman, I would ask that my full statement be made a part of the record.

Senator PELL. Without objection.

PREPARED OPENING STATEMENT OF SENATOR NANCY LANDON KASSEBAUM

I am pleased to participate in this morning's hearing on the Educational Excellence Act of 1989 and on the administration's guaranteed student loan default initiatives.

I was happy to have the opportunity to introduce President Bush's education package in the Senate. This measure has 36 cosponsors, including the distinguished chairman of this subcommittee, Mr. Pell. I very much appreciate the spirit of bipartisanship with which Chairman Pell has approached this legislation, not only by cosponsoring the Educational Excellence Act but also by scheduling prompt hearings on it.

The importance of excellence in education cannot be overstated. Our Nation has enjoyed an exceptionally strong educational system, but we cannot afford to rest on our laurels. The world is becoming more interdependent and more competitive, and we must rise to the challenges this presents. The jobs of the future will increasingly require more skilled workers who are capable of adapting to rapidly changing technologies.

In this environment, we cannot remain stagnant. The proposals put forward by President Bush offer some important guideposts for directing our efforts.

They provide that excellence in education and in teaching be recognized and rewarded. They encourage experiment and innovation, and they seek to assure that Federal education dollars are carefully targeted.

The President's commitment to these principles and his strong advocacy of education are to be commended. I commend, as well, his initiatives in the area of guaranteed student loan defaults.

The regulations recently issued by the Department of Education reflect a thoughtful, fair, and tough approach to a problem which will cost taxpayers about $1.8 billion in this year alone. Well over one-third of guaranteed student loan expenditures go toward default costs. It is essential that this serious problem be addressed in order to mantain the integrity of the loan program and the widespread support it has enjoyed.

The regulations emphasize constructive steps to be taken by institutions, based on their individual default rates. The institutions are given a reasonable amount of lead time in which to initiate reforms—with limitation, suspension, or termination (LST) of program eligibility not taking effect until January 1991. In the meantime, the department will be taking several other steps to address this problem—particularly when more refined data about default rates becomes available in the coming weeks. I also look forward to receiving proposed default legislation, which I understand will be submitted later this month.

I look forward to hearing from our witnesses and want to thank Secretary Cavazos, in particular, for joining us today.

Senator PELL. We are also honored to have the ranking member of the full committee with us.

If you would care to make an opening statement, we would be delighted.

Senator HATCH. Thank you so much, Mr. Chairman. I appreciate that courtesy.

I am very happy to work with you and the distinguished ranking member on this committee, Senator Kassebaum, to try to come up with the very best in education. And I am pleased to be a cosponsor of the administration's bill with Senator Kassebaum.

We welcome you, Dr. Cavazos. We appreciate having you here. We appreciate the efforts that you have made. I have read your statement, and I think it's an excellent statement. Some of the things you are trying to do, I think, are long overdue. I just want to express my appreciation for your leadership in this area.

I also would like to say that I personally appreciate the distinguished chairman of this committee. He works long and hard to try to make sure that we all come together to pass education programs that are really worthwhile, and he deserves a lot of credit and has deserved a lot of credit through the years.

Mr. Chairman, having said all of that, I would just like you to put my formal statement in the record.

Senator **PELL**. Thank you very much.

Without objection, your statement will be put in the record.

[The prepared statement of Senator Hatch follows:]

PREPARED STATEMENT OF SENATOR HATCH

Mr. Chairman, I am delighted to welcome the Secretary of Education, Dr. Lauro Cavazos, to the committee this morning as well as our other expert witnesses. This is the kick-off of what I know will be a lengthy and thoughtful consideration by the subcommittee of legislation intended to encourage educational excellence in America.

Wherever I go in Utah, citizens of my State tell me that they are concerned about education. I have received letters from parents and students, alike, questioning the adequacy of the education we are providing for the next generation of Americans. The business community has voiced its concern about the ability of our educational system to prepare our youth for the technologically advanced jobs of the future. Clearly, we need to focus attention on the multiple issues in education, and we must work with State and local school authorities to develop effective solutions to the problems of illiteracy, drug abuse, college financing, and providing opportunities for the economically disadvantaged and other special groups.

While I have, and will continue to support, various Federal programs to assist States and local education agencies provide a quality education, I am still an enthusiastic supporter of local school districts and their leaders. School board members and superintendents all over America hold the future of their own sons and daughters in their hands. For that reason, they should have maximum flexibility to design and implement the educational programs they want for their individual communities. All the answers do not come from inside the Washington Beltway. And, there is no reason the Federal programs we support to assist these State and local education efforts have to be so complex and prescriptive that teachers and principals must spend more time filling out forms than teaching the children.

I want to compliment the Bush administration for its comprehensive "Educational Excellence Act," of which I am pleased to be a cosponsor with the distinguished ranking member of this subcommittee, Senator Kassebaum. This legislation addresses several key educational needs, including the recognition and encouragement of teaching talent, science and math education, support of Historically Black Colleges, and the elimination of drugs from our schools. I want to commend Secretary Cavazos for his role in developing this package.

Finally, I want to salute the chairman of this subcommittee, Senator Pell. He has always been willing to work in a bipartisan manner to achieve effective results. I look forward to working with him, Senator Kassebaum, and the other members of this committee on education legislation in the 101st Congress.

Senator **PELL**. Now, the ranking members of the subcommittee and the full committee having had an opportunity for their opening statement, I would like to go directly to a couple of questions here.

First, Mr. Secretary, as you know, our own legislation targets the schools, the banks, and the guarantee agencies with high default rates.

Why do the banks and the guarantee agencies escape such close scrutiny in your own proposals?

Secretary CAVAZOS. Dr. Dunn, do you want to open on that?

Dr. DUNN. Senator, the department and the Secretary agree with you completely that all the participants in the student loan program should shoulder their responsibility—the students, the schools, the lenders and the guarantee agencies. Again, we agree with you that they should all carry their fair share.

However, the department, as the Secretary mentioned in his testimony, in 1986 enacted more stringent, what we call "due diligence" requirements. These are servicing or collection procedures which are necessary for the lenders and the guarantee agencies to retain the Federal insurance on the loans. That series of due diligence requirements really hits the guarantee agencies and the lenders more sternly, in their pocketbooks than many people realize. We believe that these new requirements really are working and that they will help decrease defaults.

Also, because the department is concerned that access students to postsecondary education not be limited by measures which might encourage restricting access, the department would be concerned that enacting default management plans for either lenders or guarantee agencies based on default rates might have the possibility of discouraging those types of institutions from serving some of the more at-risk populations.

So, we delivered that we had covered them, the lenders and guarantee agency, previously. We were a bit reluctant to do it again and in the way you suggest. However, they did not totally escape this time around either. There are four new things that the department would require of guarantee agencies and lenders.

First of all, in the new final regulations, we require banks to notify schools when their former students are becoming delinquent on their guaranteed student loans.

We also require guarantee agencies to institute more reviews of lenders and of schools.

We also, in the notice of proposed rulemaking, are suggesting that lenders will notify borrowers when their loans are sold if the sale of the loan means the student has to pay their check to another institution. We think that will help the default problem.

And also we are suggesting, in our legislative package, that banks institute a graduated repayment schedule. A lot of the defaults occur when a student has just left school, has started a job, and is earning a lower income than he or she will later when he or she has gained some earning power. And what at a minimum we would require is that a bank, in the first year that a student is paying back the student loan, offer a program whereby the student could pay the interest only and then, perhaps also for the next three years as their wages go up, pay slightly higher payments. Then, in the fifth through the tenth year, the student would pay back a larger amount in order to complete the loan.

So we are doing other things in this package which affect lenders and guarantee agencies.

Secretary CAVAZOS. Mr. Chairman, if I might add to that discussion, which I certainly think clarified our position, overall we are trying to make the point that everyone is in a partnership in this effort. It is not just the schools, the students, the lender agencies, the banks, but it is all of us together. We believe our proposal is of benefit to the entire Nation. Over the years, an evolution of our regulatory process has lead the department to a position now that is more encompassing. I think that this is almost the last phase of this process.

It is really the first major overhaul of the effort in a number of years.

Senator PELL. Thank you very much.

I would add, Dr. Dunn, that we miss you on the committee, but we are very glad you are where you are.

I would like to ask another question of Dr. Cavazos. That is, is it your intention to implement the new regulations based, as I mentioned in my opening statement, on the 1987 data or will you be able to wait until September and use the 1988 data?

Secretary CAVAZOS. Well, Mr. Chairman, it was not our intention to use that 1986 data.

Senator PELL. 1987 data.

Secretary CAVAZOS. 1987 data on that, nor do we intend to use them.

Senator PELL. All right.

Secretary CAVAZOS. And we are not going to use that to impose any penalty on any institutions.

Now, what we are really getting at here is that we will correct any technical errors that are in the data and certainly we will bring the data into line.

It does permit us to take one important action, using the 1987 data, which is to notify those schools that have a high default rate already that they had better start analyzing their default situation. At the same time, we promise, Mr. Chairman, that we will work with those schools to make sure that we ultimately arrive at the same set of data before we start putting into place our imposed penalties or taking other actions.

I want to emphasize again that in our original statement we did point out that we needed to refine the data and we will continue to do that. And we will by the end of the summer have a new set of data that will be the basis for our future discussions relative to where a school stands.

I would like to focus on one additional thought. We must focus on the fact that student loan defaults are still costing taxpayers $1.8 billion during the past year. And therefore, that is reducing access to a quality education to a large number of our students. That represents, as you know, Mr. Chairman, 37 percent of the total amount that we have available in those loans. To address this problem, I agree that we must sharpen the data, and we will do that, I promise that.

But the other side of it is we must not lose sight of where we hope to go, and that is to really put in some requirements in there that will benefit the students, that will benefit the institutions, that will help us address this issue and just get that loan default problem out of the way.

So I promise you, Mr. Chairman, that we will clean that data up.

Senator PELL. Good. Thank you very much.

I would now defer to the ranking minority member, Senator Kassebaum.

Senator **Kassebaum**. Mr. Secretary, I would like to ask about the merit school proposal. I believe that the States would make the selections and set up the program, but you will design the criteria. Could you elaborate a bit on how this would work?

Secretary **Cavazos**. All right. Well, actually we are looking at a combination of Federal and State involvement. The merit school proposal is an excellent proposal. Basically, what it does is not just reward merit as such, but rather improvement or movement toward merit.

As you recognize, Senator, there are a lot of meritorious schools in this Nation already. They are doing good jobs and we need to continue to encourage that.

But the schools targeted by this proposal will meet special criteria. For example, these are schools that over a period of time will turn around their drop-out rates, will improve their test scores, will have a drug-free campus, will have improvements in terms of their students' skill levels in terms of writing and mathematics, and other areas. In many cases, schools will be selected that are composed of student bodies that have substantial numbers or proportions of students from low-income families. In other words, these are schools that are going to take an extra step and they will truly improve themselves.

Now, within each State, the presidential merit schools would be selected by a special State panel using State and Federal criteria. So, both will contribute to that part. But what we are looking at here, Senator, is a partnership between the State and the Federal level to develop these criteria.

Senator **Kassebaum**. And essentially just to recognize progress in those areas.

Secretary **Cavazos**. Yes, ma'am. In significant areas where we feel we must start turning around, this is a good way to say, we'll reward improvement of a school's drop-out rate, improvement of a school's test scores—a host of educational improvements that this program will reward.

Senator **Kassebaum**. Funding for the program, which, would be $250 million for 1990 and $500 million by 1993, would go to college scholarships and various programs at the school, or equipment. Is that correct?

Secretary **Cavazos**. It will go directly to the schools, and they will make their decisions as to where they want to spend it consistent with educational advancement. And I can think of a lot of places, if I were a school administrator, where I would love to put that kind of money.

Senator **Kassebaum**. Well, for instance, does the State get a certain amount of money based on the population of that State and——

Secretary **Cavazos**. It would be on a formula basis.

Senator **Kassebaum**. Can the States then select the number of schools that they want? I mean maybe some would only pick one or two, some States might pick five or six.

Secretary **Cavazos**. It's going to vary.

Senator **Kassebaum**. Is that up to the States?

Secretary **Cavazos**. Charlie, do you want to add to that?

Mr. **Kolb**. Yes. Basically we see this, as the Secretary said, as a cooperative relationship with basic macro-Federal criteria that the Secretary outlined and then the States would have an opportunity to elaborate on that to meet their specific needs.

The State could then make its own selections, using these criteria. But the State would be in the position basically to determine the amount that each merit school would get. And they could do this, for example, based on certain State-determined criteria that would look at things like school size or economic circumstances of the student body.

So we want to build flexibility into this program as well.

Secretary **Cavazos**. I might add, Senator, that we see this as serving another point and that these are really model systems, excellent model systems, and the second piece of it is incentives for other schools to excel. This is the direction we are going.

Senator **Kassebaum**. Well, I think that serves a very useful purpose. I think many times that highlighting model programs is just as valuable as offering financial incentives.

I would like to turn to alternative teacher certification. I think that there is about $25 million requested for that initiative, which is not necessarily a new idea. It is one that has been around for a while and has gone through various analyses.

What do you see the $25 million being used to do, and exactly how would you envision the program working?

Secretary **Cavazos**. Alternative teacher and principal certification is a cornerstone of the Educational Excellence Act. As you recognize and the members of this committee recognize, we have a serious problem in maintaining a sufficient number of teachers in very, very critical areas, particularly in the suburbs of mathematics and science, as well as increasing the number of minority teachers. We have a very low number of minority teachers in comparison to the number of minority students that are present in our elementary and secondary schools.

So the thrust of this legislation is to encourage the States on a one-time basis to seek ways to provide for alternative certification of teachers, principals, and administrators and to seek ways of doing that in a very, very efficient sort of manner. At the present time there are a variety of States that use alternative certification. There are some States that do not have it.

It is our hope that as this money is allocated to all of the different States, they will use those dollars, either to improve existing alternative certification programs or to really look at the issue and decide which direction to pursue.

Now, we are not saying that a teacher doesn't have to have any preparation at all to become a member of the teaching profession. But States need to look at issues like how much more education is required of a person in terms of formal teaching—should they use a mentor system or a master teacher program, or a variety of these strategies?

Charlie, do you want to add anything?

Mr. **Kolb**. I think just to point out, Senator Kassebaum, Kansas State University has experimented in precisely this area and has an alternative teacher certification program, I believe, for rural citizens. This is exactly the sort of thing that the President and the Secretary want to support.

This legislation would allow the funds to be used for a variety of purposes and experimentation in different models of alternative certification programs.

Senator **Kassebaum**. So you will not give the funds to the State itself, the State Department of Education, but you will give this seed money to, say, Kansas State University, if they apply for a grant?

Mr. **Kolb**. Well, the money will go to the States. The States would apply for the amount of money that they would need based on the proportion of their school-age population. That is basically how the formula mechanism would work. And if there is any money left over, the Secretary could reallocate that.

But the $25 million is contemplated, I think, basically to be available over a two-year period to encourage a number of the programs that are out there now. Some of the programs that the Secretary mentioned have been what I guess some people have characterized as emergency certification, and I think alternative certification is building on that concept but allowing a little more experimentation to meet some of the needs that we know are present in our educational system and will be present into the next century.

Senator **Kassebaum**. As you say, this is just a one-time grant to see how well it works and to encourage it?

Mr. **Kolb**. Available for a two-year period, yes. Yes, ma'am.

Secretary **Cavazos**. If I may add another point here, this becomes another model system. It provides Federal leadership in saying this is something that should be looked at, another way of providing more quality teachers, into the Nation's pool of teachers. We would hope that the States will carry on from there.

Let me just remind all of us of our need to increase the numbers of minority teachers. Almost 30 percent of our students in elementary and secondary school today are minority children and only about 11 percent of our teachers are minority teachers, 11 or 12 percent.

And the other thing that is disturbing is the decreasing number of minorities in the colleges of education who are preparing themselves for a teaching career. So this is another way, Senator, of trying to address this important issue.

Senator **Kassebaum**. Well, that's true. I think it's really very disturbing that we are not drawing students into education. I think one of our biggest responsibilities is to enhance the professionalism of teaching, and that comes with better pay and a recognition of the importance of that job. You know that, Secretary Cavazos, better than anybody.

I just have one other question on the student loan default program. As I said earlier, I really applaud your efforts to try to address this issue in a constructive, thoughtful fashion.

It is my understanding that your legislative package includes a provision which would require a third party to administer a test of ability to benefit. I would like to hear a little bit more about your plans. For example, if you are going to contract out, who will serve as this third party?

Secretary **Cavazos**. Let me start the discussion on that, Senator. I think it's very, very important that a student have an ability to benefit if they are going to go into any educational program regardless of its type.

At the present time, there is an ability to benefit provision in current law. However, the student takes this test and must demonstrate ability to benefit keep during the time the student is enrolled in a particular program. Therefore, that means a student can really enroll, start out, and be through the course before it is discovered that the student is not going to benefit in this program, and he or she drops out and this presents our educational system with an enormous problem.

What we are proposing is to develop a nationwide system where there would be an independent set of people to administer these tests to demonstrate ability to benefit, that the test be done before the student enrolls, and that the person or the people applying the test must be certified by the Secretary of Education.

That is the major thrust of that direction.

Is there anything you want to add to that?

Dr. **Dunn**. Yes. I was just going to add that the Secretary would designate various independent agencies who would both design the test and then administer it. The accrediting agency of the school in which the student wants to enroll would determine what is a passing score on that test for the student in that particular program.

But we have some protections built in for the Secretary in case students admitted under that criteria, under that procedure, would not maintain the same graduation rate or the same job placement rate as other students. The Secretary would then have an option to be able to substitute another entity to determine the passing score and the Secretary would be able to take into account that performance by the accrediting agency in reconsidering the agency's status on the Secretary's recognized list.

Now, one additional question that has come up is whether we would require the test to be administered offsite, not in the school. We have decided that the legislation we will propose is not going to require that the test be administered offsite. We believe that if it is administered on the school premises by an independent entity and administered in its entirety, something like how ACT tests or the SAT tests are now administered, this will protect us against abuses that currently occur.

We thought long and hard about whether to require test administrated offsite of the school, but we decided not to because many people who are experienced in dealing with the ability to benefit students tell us that they are a little bureaucracy-shy, or a little school-shy, and would not be happy about making too many stops along the way to enrolling. So, we think we are getting the best of both worlds. We are trying to help those students enter school, but also to protect them and make sure that the tests that determine whether they have an ability to benefit really are independent and neutral.

Senator **Kassebaum**. When do you hope to implement this plan?

Dr. **Dunn**. We are sending this up in our legislative package.

Senator **Kassebaum**. So it could go into effect in the fall of 1990?

Dr. Dunn. Yes, depending upon the effective date the Congress enacts.

Senator Kassebaum. I understand you will need to select contracting agencies and work out how you will monitor the program. It's going to take some supervision at first, I would assume, to make it work. It seems to me that it's a good and thoughtful concept.

Secretary Cavazos. I think that this proposal provides consumer protection, helping students and giving them guidance.

Senator Kassebaum. Well, just one other question. After you do the initial examination or review, do you follow through in a year's time?

Dr. Dunn. We are not certain yet of the time, but we definitely are going to require the schools to keep comparative rates on how the students who take an ATB test, and pass it, and enroll do on completion of the course, on getting jobs, whatever. We will use that information for feed back to refine the procedure.

Senator Kassebaum. But that could be after they complete their college career.

Dr. Dunn. But the ATB students mostly are enrolled in very short-term programs.

Senator Kassebaum. That's true.

Dr. Dunn. So it should have a short turnaround.

Senator Kassebaum. Thank you, Mr. Chairman.

Senator Pell. Thank you very much, Mrs. Kassebaum.

The Chair would now recognize the ranking member, Senator Hatch.

Senator Hatch. Thank you, Mr. Chairman.

I only have one or two comments that I would care to make. One is on the question of how you plan to consolidate or work out the national science scholars program with the programs in science and math education already being done by the National Science Foundation?

NSF provides awards to talented high school science students. It makes me wonder if maybe you can't build on that program with yours or vice versa. I just point that out as something that may be a cooperative program and would actually provide a little bit more money too.

Secretary Cavazos. Well, Senator Hatch, I think certainly think the programs that are sponsored by NSF are outstanding, they truly are. And we work closely with NSF already and we discuss these issues.

I think that this proposal proves another approach that we can use to emphasize the need for more science and mathematics scholars. I would prefer to see it housed in the Department of Education, first of all because we really believe that student assistance programs can be better coordinated through our department. We already have existing financial assistance programs. So we have had quite a bit of experience in following through and tracking recipients of direct student financial assistance.

Then, on top of that, we have a lot of experience already in science and math programs. For example, in the field of minority science improvement programs, we administer the Patricia Roberts

Harris graduate fellowship programs which plays a key role on this issue.

Another important issue that we have to keep in mind is that the Department of Education sets the tone and is a model for education in the Nation. And I would like personally to see the Nation recognize the department's support of strong programs in mathematics and science. So, for that reason I really believe they should be housed over in our department. But, we certainly are going to work, and we will always work, with our colleagues at the National Science Foundation.

Senator HATCH. Thank you.

You have in your package the drug-free schools urban emergency grants. And I commend you for it, agree with it, and support it. But it is restricted to urban areas, and let me just say that rural areas are not immune from having drug abuse problems. And they are certainly not immune from the drug menace. So I hope the department will focus some of its anti-drug programs on rural areas as well.

I might just also say that I presume that one reason why the total sums in these programs are low is because you want to see how the programs go and then we can come back and fight for more sums later if that is the case. And I know you will be criticized for not having grandiose, billion-dollar programs, and I presume that is one of the reasons why you want to see how these things work.

Secretary CAVAZOS. Senator, one of the most important roles of the department is to provide strong leadership in education and to indicate to the American people the direction we believe the Nation needs to go. We must work in concert with all of the States and local areas to improve the quality of American education. In many cases, as you point out so accurately, we are not asking for a lot of dollars. But we help focus attention on key education issues. It is not unlike, although the dollars are great, the issue of student loan defaults, the $1.8 billion default problem. But certainly the Nation's attention is now focused on that key issue.

I think it's the same way in the area of drug abuse prevention. We respect the need for funding drug programs in rural areas. Our $25 million request for fiscal 1990 and the next three years is really part of an overall Federal package to address this terrible problem throughout our country.

In addition, we have requested approximately $366 million for the Drug-Free Schools and Communities Act. So a lot of that, of course, is directed into the rural areas. The Urban Emergency Grants Initiative, therefore, is just part of our response to the issue and the problem.

Senator HATCH. I am glad you brought that out because a lot of people think that, you know, these may be minuscule programs because of the limited amount. But you have a lot of funds in various areas that can be utilized to augment and help in these programs as well. And the ideas that you are coming up with are worthy ideas and you want to see how they work and you want to see which ones are the most worthwhile ideas.

I like the ideas that you have, and I commend the statement of the Senator from Kansas for being willing to promulgate these, and of course, my dear colleague from Rhode Island as well, in being willing to help with them and do what he can to assist in them, which he has always done since he's been here.

So I want to tell you I appreciate the nice way you present these matters. I am also glad to see Roberta Dunn here with you today, and I welcome her to this committee, the first time on that side of the table, I guess. We're glad to have you here.

Thank you, Mr. Chairman.

Senator PELL. Thank you very much, Senator Hatch.

We are honored in having the chairman of the full committee with us.

Senator Kennedy.

Senator KENNEDY. Thank you very much, Mr. Chairman.

I think I can say with authority that the Trump Shuttle is not much better than the Eastern Shuttle was. [Laughter.]

The Secretary will have to take the frustrations out here.

Mr. Secretary, I want to welcome you.

I would ask that my statement could be a part of the record.

Senator PELL. Without objection.

[The prepared statement of Senator Kennedy follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

I want to thank Senator Pell for holding this hearing. And I am pleased that Secretary Cavazos is here to discuss the administration's education initiatives. It has been some time since we have had an administration that has been interested in working with Congress in a positive fashion on education.

Six years ago, the National Commission on Excellence in Education called America "A Nation at Risk". Today, the need for educational improvements is more urgent than ever. Few things are as important to our national well-being as our schools and colleges.

The Bush administration's proposals will result in a modest increase in Federal educational spending. I also commend the emphasis on merit, achievement, and choice that are a central part of the administration's package.

The Federal role in education has historically focused on the economically and educationally disadvantaged. We can, and will, do nothing that would endanger the Federal commitment to these individuals. We must maintain that priority in any legislation that moves forward.

The proposed legislation includes a provision to give families more opportunities to choose the school their children will attend. The Senate included such a provision in the Elementary and Secondary Education Improvement Amendments of 1988, but the proposal that was enacted into law bore little resemblance to what we hoped to achieve.

One of the most successful educational choice programs in the country is the "controlled choice" program in Cambridge, MA that began in 1981. The Cambridge initiative was launched in an effort to maintain school desegregation gains and to halt the flight of middle and upper income families to the suburbs.

Under this program, families choose the schools they want their children to attend. Choices are honored depending upon the availability of space and their impact on racial balance. All Cambridge schools must reflect the system-wide racial balance within five percentage points. Lotteries are used to assign students to over-subscribed programs.

Between 1982 and 1986, 73 percent of all new pupils were assigned to their first choice school and another 18 percent were assigned to their second or third choice. Most important, enrollment and the racial balance of the schools are stable. This program has worked well, and it can serve as a model when we consider the administration's proposal for magnet schools of excellence.

Two other parts of the proposal are also of special interest. The concept of alternative certification of teachers and principals has merit, but I hope that it will be considered in the context of other needed initiatives to enhance the number and quality of teachers.

We also recognize the importance of strengthening educational efforts in math, science, engineering, and foreign languages. The administration's request for a $5 million scholarship program is just one small part of what we need to do.

Finally, the regulations proposed two weeks ago on student loan defaults are a worthwhile step in dealing with this difficult issue. They will focus attention on the schools with the worst records and give other institutions additional time to address their problems.

I look forward to Dr. Cavazos' testimony on these issues, and join in welcoming him to our hearing.

The CHAIRMAN. I want to welcome you, Mr. Secretary, to the committee. We have some areas of difference, but there is such a dramatic difference, I think, in the leadership you are providing and being willing to work with both the Committee on Education, the full committee, on many of these different matters.

I commend you also for the recommendations you have made on the student loan program and our opportunity to visit about how you reach those particular judgments and decisions.

I had the opportunity over the weekend to read Dr. Boyer's excellent statement on the future of education that he gave to the Business Roundtable last week. And all of us have more things to read than we possibly can handle, but I would urge, if you do have a few moments, to read through that. I thought it was an excellent, excellent commentary by a very distinguished and thoughtful educator, and that I think is dealing with some of the broad-based issues which your department is going to have to deal with.

I don't want to go over some of the ground that has been covered earlier, and I just received a note from my staff that perhaps some of the areas I was going to ask you about in terms of the database have been covered. I guess there have been some questions about it.

Secretary CAVAZOS. Yes.

The CHAIRMAN. And I know just with regards to the schools in my own State, the last time when we had Secretary Bennett, we had a list of 198 schools, now we have 55, and the real question, I think it's a fair one, is whether that database is the kind of credible database and where you can really move forward on.

We will work with you on that because I think we have to have some real credible information if we are going to move ahead in the ways that are going to be fair and do the job that I think that you and we want to see achieved.

There is the program, I don't know whether you've talked about the national student loan database. That is an issue that has been around for 10 years. You have difficulty in getting the schools and colleges, require that they participate. But it does seem to me that a lot of thought went into establishing that as a base. It hasn't been funded or supported, not just with this administration, but the past administrations. We know what the problems are with that program.

But it does seem to me that the department might be able to use that and get the kind of cooperation from the various schools which obviously is essential so that we can in the future really move forward. You might review that and any of the arguments for and against. I think there are increasingly reasons why we should move in that direction.

Could you give us at least some idea about the Black colleges, how many of those are above the 40 percent trigger in your regulations?

Dr. **Dunn**. Senator.

The **Chairman**. Glad to have you here, and I join with Senator Hatch to welcome you back.

Dr. **Dunn**. I'm glad to see you again, too. Thank you.

Let me state first of all that we do not believe any historic Black college or university would be eliminated from the program. Among the historic Black colleges that have over 30 borrowers, there are only two that have default rates, on the old data, over 60 percent. Thirty of them have default rates between 40 percent and 60 percent.

We will work to make sure their default cohort rate data is accurate. Also, any school has a defense to a limitation, suspension, or termination proceeding, and that is what we call the Appendix D defense. If a school implements a series of measures in Appendix D of the regulations, measures which will help reduce the default rate of its drop-out students, would help the students get better job information and job placement, and would encourage the students to know more and to be more responsible about their loan responsibilities, and then some other internal measures, that would be a defense.

Let me also say that last year, late in the year, the department along with some of the historic Black colleges and universities developed a default management program. It's similar in many ways to that developed, that fine program developed by the National Association of Trade and Technical Schools and AICS. And at the moment the department is also developing some software to go along with that package.

So, we think that what this will do, the Secretary used the phrase before, it will enhance the quality of education offered to the students of Black colleges and give them a little more consumer protection, too.

Secretary **Cavazos**. I would like to reassure you, Mr. Chairman, that we are very, very sensitive to these issues. And I made the point a number of times in the last few days, particularly as concerns about our data have come up, that we are not going to act in a precipitous manner and we will not be applying the 1986, 1987 data. Those were guidelines.

But it does put schools on notice, and we will work with all of those schools, and if someone questions that data, we want to resolve it.

The **Chairman**. All right. I appreciate the response.

Just moving on with regard to the merit schools, the concern that some of us have is whether this is just going to result in good schools getting better or whether it is really going to move in areas where schools are really making important progress. The way that it is constructed at the time concerns me in that it offers the opportunity for just schools getting better, and I would hope that maybe, as I understand from the chairman and others, we are going to be moving the legislative package and I hope that we might be able to work with you to deal with that issue.

I think the idea of merit and support makes a good deal of sense, but we also know that if you're having this important progress in some areas and some schools with heavy Chapter 1 and disadvantaged children, to get those schools receiving the kind of recognition I think is something that all of us, hopefully, could agree on.

Just again in the area of the science fellows, the concern that I have on the science fellows going to the various States is probably the people that would get that program would probably major in science in any event and probably be gifted enough to get to school in any event.

Now, maybe there is a difference on it, but the concern, at least from my point of view, is to make sure that the people who get that and are going to receive it are actually going to go into the areas of education. And how we can best do that, I hope that we will be able to work with the administration because it seems to me just putting that out there, the limited program, can be helpful, but whether we are going to get those individuals to do it.

I mean we are mindful of the Truman Scholarship Program, a very beneficial program for people eventually to go into public service on it, and we are not getting the intended result. A lot of people are getting it but they're not going into the kinds of public service which I think most people who supported those programs had hoped.

So I would hope that we would be able to work with you on that measure. I don't know if you have any reaction. I know that we will talk with you.

I had other questions, Mr. Chairman. These are just some of the points, but I would like to be able to work with the Chair and the department on some of these areas.

We want to thank you very much. I will submit some of the other areas on which I have questions.

We are moving along on the drug-free school program. There have been some very interesting successes. I mean I know just in my own State we have probably dropped greater than the national average with regard to some substance abuse. And there are some very important and significant successes, as others in our State that haven't been as effective as they should.

But I think I want to thank the Secretary for being up here. I wish we were able to do a little better in terms of the resources. We may have some differences on those, about priorities and increasing some of those areas of concern. But we are grateful to him for his presence.

Secretary CAVAZOS. Thank you, Mr. Chairman.

Senator PELL. Thank you very much.

Senator Cochran, I believe is next in seniority.

Senator COCHRAN. Mr. Chairman, thank you very much.

Mr. Secretary, some of the concerns that I heard expressed in my State and here in the Washington area as well when the President's proposals were first advanced was that these new programs might displace or somehow diminish the commitment of support by the administration for other programs that have proven to be valuable and helpful as we try to upgrade the quality of elementary and secondary education efforts.

How do you respond to that concern? Is there a danger that our approval of this legislation will somehow hurt other programs that are important to the States?

Secretary **CAVAZOS**. Senator, first of all, I can assure you that these programs will really be supplemental to current department programs. They will help out. They will extend our efforts in terms of education. We are not stepping away from those programs that have worked in the past and continue to be good models. That doesn't mean that we're not looking at all of our programs as we should to make sure that they are effective programs.

But the $441 million in requested funding in the Educational Excellence Act is an add-on to President Reagan's final budget, which was for $21.9 billion. So we are not cutting our commitment to education. We are really trying here to create some incentive sites, some model demonstrations, some urging of States as to what they should do and push them somewhat.

So that I feel that this is a very, very strong proposal, although not a lot of dollars in the national sense, but it's a leadership step.

Senator **COCHRAN**. Well, I think that's a good point to make, and I am glad to hear you articulate that in the way that you have.

I was looking through your testimony and sort of adding up the new authorization levels that would be approved if we accepted the proposal as it is presented this morning. And magnet schools doesn't have an authorization level here in this testimony, but I just quickly added up about $383 million of new authority and assume that magnet schools would be about a $60 million program in fiscal year 1990.

Senator **PELL**. Excuse me. I have $422 million.

Senator **COCHRAN**. $422 million?

Mr. **KOLB**. $423 million with $100 million going to magnet schools.

Senator **COCHRAN**. $100 million going to magnet schools.

Mr. **KOLB**. Yes, sir.

Senator **COCHRAN**. That makes up the difference.

As a member of the appropriations committee, we are going to be starting soon marking up individual appropriations bills, and as a member of the subcommittee that has jurisdiction over education programs, I am going to be very interested in seeing that we do allocate some funds for these programs. I hope that we can proceed with this authorization process in time for that to be on the books so we can fund some of these programs for the next fiscal year.

But I also noticed that, for example, in the Chapter 1 program, which is a program very important to the State of Mississippi, which I represent here in the Senate, there is a request for an increase in funding. I know President Reagan had requested increases in funding of that program. And I am assuming that the department is going to continue to support that program.

What is your reaction to that situation?

Secretary **CAVAZOS**. Yes, Senator Cochran, we think Chapter 1 is one of our most important programs we do. And you are absolutely correct that we have been pushing in this direction. As a matter of fact, I had the opportunity to reshape the department's final budget that was proposed as part of President Reagan's package.

This must have been in October after my arrival here in September. And we started looking at our entire budget, and there were some places where I felt that we had programs that were duplicative, or were coming to a close, or perhaps not as effective as they should have been, and we were able to redirect almost $750 million out of that budget proposal, with a good part of that going to Chapter 1, a good part of that going to Pell Grants, and part of it going into areas of need where we felt it was important.

So we do have a strong commitment to that, and we do the best that we can in that area.

Senator **Cochran**. Let me just close with a comment about the regulations and the proposed legislation dealing with defaults on the loan program.

I am very encouraged by what I have heard this morning about the sensitivity to some of these Historically Black Colleges and Universities where the repayment rate has not been what we would like to see. And I was curious as to whether you thought there would be any danger of some of those colleges and universities losing their eligibility to participate in these programs.

But as I understand your comments, you don't think that is going to happy and that you have designed the regulations and the proposed legislation to try to help ensure that they don't lose that eligibility. Is that correct? Did I hear that right?

Secretary **Cavazos**. That's correct, Senator. Let me point out one other thing. Again one of the first things I did when I arrived here—at that time our regulations were already going forth—was to call them back. And I said I wanted to put out a notice of proposed rulemaking and to hear from the constituency out there.

I really did not estimate the full extent of the interest in this area, because we received almost 3,400 responses to our proposal. And the staff promises me faithfully they've read every one of them.

And from that undertaking we were able, therefore, to work with the entire academic community, the groups responsible in terms of the programs, all of the postsecondary levels. And we heard people out. And what we tried to develop, were new regulations that were tough, that were fair, that had been well discussed, so that no one would ever come in and say, well, you didn't really discuss these things with us.

Now, to the specific point that you made that a college is not going to be automatically cut out. You are absolutely correct on that. It's not going to be automatically cut off. We will meet with those colleges. We will work with them. We will try to help them to manage their default rate. And I promise you that we will take into account the population of that college, its composition.

So, Senator, I feel very confident that what we have here are rules that will benefit students and move this country ahead in an area where we desperately need help.

Senator **Cochran**. Thank you very much.

Mr. Chairman, Mr. Chairman.

Senator **Pell**. Thank you very much.

The Chair recognizes Senator Thurmond, senior Senator in the Senate.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you, Mr. Chairman.

Mr. Chairman, I ask unanimous consent that my entire statement appear in the record and I will present a reduced form in the interest of time.

Senator PELL. Without objection.

Senator THURMOND. I would like to take this opportunity to welcome Secretary Cavazos and his aides to this hearing.

Mr. Chairman, I commend you for holding this hearing on S. 695, the Educational Excellence Act of 1989, as well as on the initiative of the Department of Education that is being proposed to reduce defaults in the Stafford Student Loan Program. I am pleased to be an original cosponsor of S. 695, the Educational Excellence Act of 1989.

This measure embodies the authorizing legislation that is required for seven of the ten initiatives that were announced by President Bush in his supplemental message to the State of the Union Address, entitled "Building a Better America."

In this message the President emphasized that providing quality education is fundamentally the responsibility of State and local Governments. On this point, I strongly agree. Our State and local Governments must do all that they can to ensure that the citizens of our Nation have access to an educational system of the caliber that will prepare them to compete in an increasingly complex world.

American students should be second to none in educational achievement. President Bush has demonstrated his commitment to building a well-educated America through proposals that are the focus of S. 695.

Mr. Chairman, this subcommittee is fortunate to have Secretary of Education Cavazos before us today to discuss S. 695, as well as the initiative that is being proposed by the Department of Education for the reduction of defaults in the Stafford Student Loan Program.

I would also like to welcome Senator Glenn to this hearing. I am confident that the subcommittee will benefit from your testimony, Senator.

In addition, I would like to recognize Miss Sheila Gallagher, who is president of the South Carolina Educational Association. Miss Gallagher is a very dedicated educator and administrator. I am pleased to welcome her, and I regret that another appointment will prevent me from remaining for the entire hearing. However, I am looking forward to reading the testimony that is presented today.

Mr. Chairman, I am vitally interested in this matter. Education is the hope of the world. There is nothing more important than the investment that we put in people through education. It is the best investment that we can make.

Dr. Dunn, although we miss you on the committee staff, I am pleased to see you here today, in your new position as Deputy Assistant Secretary for Student Financial Assistance.

Thank you, Mr. Chairman.

[The prepared statement of Senator Thurmond follows:]

PREPARED STATEMENT OF SENATOR THURMOND

Mr. Chairman:

I would like to commend you for holding this hearing on S. 695, the "Educational Excellence Act of 1989", as well as the initiative of the Department of Education that is being proposed to reduce defaults in the Stafford Student Loan Program.

I am pleased to be an original cosponsor of S. 695, the "Educational Excellence Act of 1989". This measure embodies authorizing legislation that is required for seven of the ten initiatives that were announced by President Bush in his supplemental message to the State of the Union Address entitled, "Building A Better America". In this message, the President emphasized that providing quality education is fundamentally the responsibility of State and local governments. On this point, I strongly agree. Our State and local governments must do all that they can to ensure that the citizens of our Nation have access to an educational system of the caliber that will prepare them to compete in an increasingly complex world. American students should be second to none in educational achievement.

President Bush has demonstrated his commitment to building a "well-educated America" through the following proposals that are the focus of S. 695:

- The establishment of a "Presidential Merit Schools" program, that would recognize, as well as reward elementary and secondary schools and teachers that make substantial progress in educational achievement.
- The expansion of the "Magnet Schools" concept, to enhance excellence in academic and vocational disciplines.
- The encouragement of States to formulate and place into action alternative certification requirements for educators, so that our students may have the benefit of learning from those who possess a wealth of knowledge in specific subject areas, even though they do not have formal training in teaching.
- The creation of the "President's Awards for Excellence in Education", which would provide an additional incentive for classroom teachers to excel.
- The establishment of the "National Science Scholars Program" to provide scholarships for students who have demonstrated academic achievement in the areas of science and mathematics.
- The development and implementation of comprehensive approaches to addressing the problem of drug abuse among students through expansion of the "Drug-Free Schools" State formula grant program to include "Drug-Free Schools—Urban Emergency Grants".
- Finally, an increase in funding for endowment grants for Historically Black Colleges and Universities.

Mr. Chairman, the subcommittee is fortunate to have Secretary of Education Cavazos before us today to discuss S. 695, as well as the initiative that is being proposed by the Department of Education for reduction of defaults in the Stafford Student Loan Program. Mr. Secretary, it is a pleasure to welcome you to this hearing. Also, I would like to welcome Senator Glenn. I am confident that the subcommittee will benefit from your testimony.

Additionally, I would like to recognize Miss Shelia Gallagher, who is the president of the South Carolina Education Association. Miss Gallagher is a very dedicated educator and administrator. I am pleased to welcome her to this hearing.

Mr. Chairman, my schedule will not permit me to remain for the entire hearing. However, I shall review the testimony that is presented with interest.

Senator PELL. Thank you very much indeed, Senator Thurmond. I would add that we hope to mark the bill up at the subcommittee level in about the middle of July, 13th of July, something of that sort.

Secretary Cavazos, thank you very much for being with us with your associates. And we wish you well.

The record will stay open for a few days so that any additional questions any of my colleagues care to ask will be sent to you to be answered for the record.

Secretary CAVAZOS. Thank you very much, Mr. Chairman. We really appreciate your leadership and the opportunity to present these issues before the entire committee. To all of you, my personal thanks.

Senator PELL. Good. Thank you very much indeed.

Now Senator Glenn, I believe, will be appearing to give us his ideas.

Senator KENNEDY. Mr. Chairman, I want to join in welcoming Senator Glenn to the hearing. I had intended to have the opportunity to hear him out. I am familiar with the theme of his testimony, and I think all of us who are committed to education, particularly recognizing the areas of greatest need in terms of the education system, welcome him as a strong ally, I think. He has given a lot of thought to this testimony. He has put his finger on some of the areas of greatest need for our society.

I want to extend a personal word of welcome to him here, and we look forward to working with him on the proposals that he is advancing today.

I want to thank you very much, John.

Senator GLENN. Thank you. I appreciate those remarks very much.

Senator PELL. Thank you, Senator Kennedy.

Senator Glenn.

STATEMENT OF HON. JOHN GLENN, A U.S. SENATOR FROM THE STATE OF OHIO

Senator GLENN. Thank you, Senator Pell and other members of the subcommittee, for allowing me the opportunity to testify this morning.

Today, I would like to address the proposal I have made to establish congressional scholarships for science, math, and engineering students, and I will also discuss briefly a similar proposal that has been made by the President.

There are important differences between the two proposals. But President Bush and I certainly agree on the most important point—the need for a highly visible, prestigious, national scholarship for the Nation's young science students.

Now, according to many, education in this country is in trouble, and some would say that we even have a crisis on our hands. I happen to believe we face a particular crisis in science and math education.

Mr. Chairman, if you challenge an audience some time back home to say what they think the two things are that made this country great, someone will say resources, of course. But lots of places around the world have resources and the purple mountain majesty and fruited plain and all those things that we sing about.

But I would submit that there are two things that really led us into preeminence in a short period of time. And those two things were: first, education, that was not just for the kids from the castle, as it had been in earlier times in Europe and elsewhere, but education that was for everyone.

And the second area is the area of science and research, in particular. We learned the new things first and then we put them to work in our society.

In those areas we are being particularly challenged in our own time. And education is in trouble. And if we have a crisis, I think we have a particular crisis in science and math education. One report after another confirms that the level of science literacy among the general school-age population is almost embarrassingly low.

I get especially concerned when I read that the children of our chief trade rivals routinely outperform our best students in science and math.

Moreover, there is a growing concern that the U.S. faces a potential shortfall of well-trained scientific personnel. The proportion of American students studying in engineering, math, and the natural sciences has been declining over the last decade.

In addition, demographic changes are looming ahead that could exacerbate the shortage of scientific personnel. So we must do more to encourage minorities, women and the disabled to enter the technical pipeline.

The world is becoming increasingly technological. The pace of technological innovation moves faster than our ability to produce technical personnel. How is this country going to be able to compete with our trading partners if we cannot produce the scientists and engineers necessary to make internationally competitive products? And if we can't compete, how are we going to provide jobs for our citizens or clean up the environment or fight crime or provide health care or a myriad of other things?

For a variety of reasons, too many of our young people are not interested in pursuing scientific careers, and we must do something to change that.

We no longer live in an age in which spectacular scientific enterprises capture the public's attention, one event after another. The U.S. space program in the 1960s comes immediately to mind. Nothing today replicates its influence in sparking scientific curiosity.

My proposal to create congressional scholarships is a very modest—repeat, modest—attempt to fill some of the void in our culture today.

S. 134 is very simple. The National Science Foundation would award college scholarships for the study of science, math, and engineering to one female and one male high school senior in every congressional district. This would spread it out all over the country so there would be a focal point but it wouldn't be just in Washington, or just in New York. It would be all over the country.

The scholarships would be worth up to $5,000 per year for four years. Its principal aim is to raise the stature of science and scientists and engineers in our Nation's schools and to draw national attention to the importance of a well-trained technical workforce.

The scholarships would be an important symbolic gesture, too. They would send a message to our young people in our schools that science can be exciting, can be fulfilling, that science is a highly valued endeavor, that scientists and engineers are critical to our standard of living, and perhaps most important, that science scholars should be just as esteemed as the starting quarterback or the homecoming queen.

Ernest Boyer, president of the Carnegie Foundation for the Advancement of Teaching and former U.S. Commissioner of Education, recently testified on S. 134's counterpart in the House that has been submitted over there by Congressman Doug Walgren. He said, "This bill is clearly a step in the right direction. It sends precisely the right message—namely, that America cares about having the math and science talent it needs to move confidently into the next century."

I should also mention that the American Association for the Advancement of Science and the Council of Scientific Society Presidents have endorsed my proposal. Both groups cited the symbolic importance of the scholarships.

Scholarships could also be used to leverage additional funding from the business community to pay for more scholarships. For example, companies or professional societies could adopt runners-up for their scholarship winners.

Finally, I would like to briefly mention the important differences between my proposal and the President's proposal.

First, under my proposal the NSF awards the scholarships under the President's Education Department. It is my view that the lead agency in the Federal Government in science and math education should handle the program, and that agency is the NSF. It has the respect and esteem of both the scientific and education community. The NSF would lend the program the prestige necessary to have the desired symbolic effect.

Second, under S. 134, the scholarship winners are nominated by an independent panel of local scientists, engineers, and educators. The President's proposal would let each Member of Congress decide who should receive a $40,000 scholarship. Using an independent panel would ensure the integrity of the selection process and help us avoid charges of favoritism. For these reasons and others, I personally would not want the responsibility of picking them. I doubt that you would either.

Third, the President's proposal calls for only one award per district. My proposal, two awards per district, one for a male and another for a female. This is an important difference because women have historically been under represented in scientific occupations. Consequently, I believe my proposal is preferable on this issue. Moreover, two awards would have a greater ripple effect in raising the stature of sciences than one.

I conclude by urging the subcommittee to support this proposal. I hope you can. I am happy to work with you on any concerns that you might have or alterations that you feel might be beneficial.

Finally, I want to thank you again, Mr. Chairman, and the subcommittee, for the opportunity to testify this morning. I would be glad to answer any questions.

[The prepared statement of Senator Glenn follows:]

PREPARED STATEMENT OF SENATOR GLENN

I would like to thank my good friend, Senator Pell, and the other members of the subcommittee for allowing me the opportunity to testify this morning.

Today, I would like to address my proposal to establish congressional scholarships for science, mathematics, and engineering students. I will also discuss a similar proposal by the President.

There are important differences between the two proposals. But President Bush and I agree on the most important point—the need for a highly-visible, prestigious national scholarship for the Nation's young science scholars.

According to many, education in this country is in trouble. Some would say we have a crisis on our hands. I happen to believe that we face a particular crisis in science and math education.

One report after another confirms that the level of science literacy among the general school-age population is embarrassingly low. I get especially concerned when I read that the children of our chief trade rivals routinely outperform our best students in science and math.

Moreover, there is a growing concern that the U.S. faces a potential shortage of well-trained scientific personnel. The proportion of American students studying in engineering, math, and the natural sciences has been declining over the last decade. In addition, demographic changes are looming ahead that could exacerbate the shortage of scientific personnel. We must do more to encourage minorities, women, and the disabled to enter the technical pipeline.

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For a variety of reasons, too many of our young people are not interested in pursuing scientific careers. We must do something to change that.

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Third, the President's proposal calls for only one award per district; my proposal, two—one for a male and another for a female. This is an important difference because women have historically been under represented in scientific occupations. Consequently, I believe my proposal is preferable on this issue. Moreover, two awards would have a greater ripple effect in raising the stature of sciences than one.

I want to conclude by urging the subcommittee to support my proposal. I am willing to work with you on any concerns you might have. Finally, I want to thank the subcommittee for the opportunity to testify this morning.

Senator PELL. Thank you very much indeed.

Your proposal and the President's are very similar, so I would imagine that we should be able to work out a compromise. Yours is $5.5 million. The President's is $5 million. The only real difference is you have this very good idea of requiring that there be one man and one woman for each of the scholarships, and the NSF to be the administering agency as opposed to the Education Department.

Those differences would seem much less than many other differences we have had to work out in post legislation, and I would look forward very much to a program of this sort.

Senator GLENN. I would be glad to work with the committee.

Senator PELL. Senator Kassebaum.

Senator KASSEBAUM. Mr. Chairman, I certainly think that it is fitting that Senator Glenn address this issue because he is a role model for many who look to science and math and where it can lead.

I found your comments interesting, particularly when you mentioned the selection process. It is my understanding that Congress, House and Senate Members, would be involved in the selection.

Senator GLENN. The selection would be made in every congressional district.

Senator KASSEBAUM. Yes.

Senator GLENN. But they would not be directly involved with it.

Senator KASSEBAUM. But you think indirectly——

Senator GLENN. If they wanted to be directly involved with it in other ways and participate in trying to get people to apply by drawing some attention to the scholarships, I think that would certainly be very, very welcome. And the scholarships can be in their names, as far as I am concerned. But I wanted this to be something that has a merit selection process to it. We want to encourage everyone to get into this.

Science can be exciting. It isn't all just being astronauts or anything like that, but I know I have seen young people myself, seen my own two children when they were studying science in high school, come home and want to talk about some principle they had been taught that day in school. And it was exciting, and it can be just as exciting as anything else they study.

Hopefully, a focal point like this of selection all over the country, being equally spread population-wise because it would be in every congressional district, this would put some emphasis on this and make a focal point of attention that I think would be very beneficial.

Senator KASSEBAUM. I am like the chairman, I think there are many ways that we could work, drawing a consensus from some of your ideas and the President's ideas.

Regarding your designation of the National Science Foundation as the administering agency, if the NSF were involved as a resource, would you have any problem with the Department of Education being the administering agency?

Senator GLENN. You mean split it, have one do the selecting and then the other the administering? I hadn't really considered that, but that is something we could certainly talk about and look into. I certainly wouldn't rule it out. I would like to look at the details of it. Maybe that would be a good way to work it.

Senator **Kassebaum**. I don't think we're far apart on the concept and the importance of the issue. Thank you for addressing this topic.

Senator **Glenn**. Thank you.

Senator **Pell**. Thank you very much, Senator Glenn, for being so patient.

Senator **Pell**. We now turn to panel number one: Dr. David Bennett, Mr. Larry McCully, Dr. Charles Thomas, Mr. Ron Marec, and Ms. Sheila Gallagher.

If they would come forward.

I want to add here that because of the time constraints, we are going to have to limit each witness very specifically to the five minutes that you were forewarned about, and most good ideas can be got across even more quickly than that. Statements of any length will be inserted in the record as if read, but I see the hour and there is another panel that is even larger to follow you, you can see, and both Senator Kassebaum and I have caucuses today. That is why we have to wrap up as quickly as we can.

I imagine, I will just go from left to right. OK. I was urged to call on Dr. Bennett first.

Dr. **Bennett**. There is a light here that goes on and a loud bell that rings. We hope none of you will provoke the bell.

STATEMENT OF DR. DAVID BENNETT, SUPERINTENDENT, ST. PAUL PUBLIC SCHOOLS, ST. PAUL, MN, ON BEHALF OF THE COUNCIL OF THE GREAT CITY SCHOOLS

Dr. **Bennett**. Thank you, Mr. Chairman, members of the subcommittee.

I ask that my comments be included as well as my written testimony in the full record of my presentation.

My name is David Bennett. I am superintendent of the St. Paul Public Schools and here representing the Council of The Great City Schools, an organization I know, Mr. Chairman, you and other members of the subcommittee are very familiar with.

We are here to testify on behalf of the Educational Excellence Act and applaud your leadership, Mr. Chairman, and general advocacy for education.

With your permission, I would like to make some general comments about the legislation and then focus in on five specific elements of the legislation.

First of all, we would like to congratulate the administration on this bill, but in general find that its scope and size is disappointing. The proposal contains a number of worthwhile ideas, but we're let down in light of last year's campaign rhetoric and are skeptical that the stagnation that Secretary Cavazos fears exists in our schools will be remedied with this legislation. We expected and hoped for a more weighty and substantial proposal.

The council would, however, favor moving this bill forward after it has undergone debate and some substantial revisions. And I will comment on the nature of those revisions.

Second, with respect to the presidential merit schools act, this is the centerpiece of the legislation, and it is intended to recognize and reward public and private elementary schools that have made substantial progress in increasing student achievement, creating a safe and drug-free environment and in reducing the drop-out rate.

The premise of this is that the awards will act as incentives. While not opposing this, and we think that the $250 million invested in this is unlikely to serve in the incentive fashion that is outlined and intended in the proposal. We think increased time-on-task and more individualized attention will result in this kind of effort.

We think that the legislation, as drafted, is too diffuse, too random, and too remotely connected with performance to serve as incentives in the way and manner that the Dade County program in Florida does, and I would commend that particular program to your attention.

As structured, these grants are not incentives; that is, promised ahead of time and then awarded on the basis of performance. Instead, they are simply prizes and, therefore, are of dubious value in spurring the efforts of all schools. Having schools vie for prizes trivializes the hard work teachers and students devote to learning and gives education a certain "game-show" flavor.

Now, third, the proposal is likely to reward those schools most apt to be making progress anyway. The bill does not require SEA's to take any of the factors that we think are most important into account. The language here shifts from being directory to permissive. I call your attention specifically to page 8, line 18. It is in there that the State criteria are outlined, and the verb "shall" is used.

However, when you get to the more specific references to the "most needy students," there the language on page 9, line 6, shifts to the verb "may." We think that shift, the verb shift, is intentional and is disingenuous with regard to the administration's really seeing that these factors of high need must be taken into account by States.

In addition, we think that the proposal would contribute to simplistic notions of measurement as equating to learning.

Our recommendations are to cause S. 695 to restrict eligibility to Chapter 1 schools, those schools in greatest need, and require that the eligible schools first develop plans and that these plans actually produce performance at which time the grants, the meritorious grants, would flow.

The Magnet Schools of Excellence proposal, the $100 million set aside for this measure, we take extreme umbrage with because we think it has already been fully debated by Congress in the last session. In the course of your debate on H.R. 5 you set aside alternative curriculum schools as a funding source once the threshold was reached of $165 million in the desegregation magnet school efforts. We believe that this was a well-reasoned and well-thought-out matter by the conference agreement and would hope that this aspect of the legislation not be funded but rather that the money be transferred to Part B in the current magnet school program and another portion, $50 million, to the urban drug education program.

The alternative certification for teacher proposal was one we commend, but think that it needs some additional effort that is evident in proposals made by you, Senator Pell, as well as by Senator Kennedy, that would provide for an increased number of teachers in the teaching pool from which urban schools in particular could select.

Drug-free education and urban grants focus again is something we strongly support in this legislation. We think that it can be increased substantially, however, in the transfer of money arrangement that I outlined previously.

We also think that the urban definition needs to be made so that schools serving at least 30,000 students would come under and fall under that definition.

Finally, Mr. Chairman, we would hope for an additional piece of legislation that would allow the establishment of a national institute for urban education research, some $50 million set aside for that purpose. We think that the results of that research effort could greatly direct the best enterprise of Congress.

Thank you very much.

[The prepared statement of Dr. Bennett follows:]

PREPARED STATEMENT OF DR. BENNETT

Mr. Chairman, my name is David Bennett. I am the superintendent of the St. Paul, MN, Public Schools, the second largest system in the State and one of the largest in the Nation. I am pleased to appear before you this morning on behalf of the Council of The Great City Schools.

Currently in its 33rd year, the Council of The Great City Schools is a national organization comprised of 45 of the Nation's largest urban public school systems. On our board of directors sit the superintendent and a board of education member from each city, making the Council the only independent education group so constituted and the only one whose membership and purpose is solely urban.

The Council's membership serves over five million inner-city youngsters, or approximately 12 percent of the Nation's public school enrollment. About one-third of the country's Black children, 27 percent of the Hispanic children and 20 percent of the Nation's Asian children are being educated in our schools. Nearly 30 percent of all poor children in the Nation are found in our forty-five cities.

Mr. Chairman, I thank you for the invitation to testify before this crucial subcommittee on S. 695, the Educational Excellence Act of 1989 and applaud your leadership and advocacy for education.

With your permission, Mr. Chairman, I would now like to offer a few general observations about S. 695, then follow with a series of more specific comments and recommendations on five items in the administration's proposal—merit schools, magnet schools of excellence, alternative certification for teachers, drug-free schools urban emergency grants, and research.

First, the Council of The Great City Schools would like to congratulate the administration on this bill, but in general we find the scope and size of it to be disappointing. While the proposal contains a number of worthwhile ideas, we are let down by S. 695 in light of the build-up it received in last year's campaign and skeptical that it can correct the stagnation that Secretary Cavazos fears in our schools. We had hoped for a far more weighty and substantial proposal.

The Council would, however, favor moving the bill but only after it has undergone thorough debate and substantial revisions. These revisions, in general, should bring the measure more in line with the crucial Federal role in education, and build more on the work Congress has done in the last two years in elementary and secondary education.

A. *Presidential Merit Schools Act:*

The merit schools proposal, the centerpiece of S. 695, has noble intentions, but fails to provide incentives for improved performance. The purpose of the Presidential Merit Schools Act is to recognize and award public and private elementary and secondary schools that have made substantial progress in raising achievement, creating a safe and drug-free environment, and reducing the drop-out rate. The premise is that these awards will act as an incentive for improved performance.

While not opposing this feature of the bill outright, the Council is skeptical that this is the best possible use of $250 million in Federal funds. First, it is unlikely that the awards would act as incentives. Improved achievement results from increased time-on-task, more individualized attention, and other variables. The awards proposed here would be too small, too diffuse at the Federal level, too random, too remotely connected with performance to serve as incentives in the same way that a locally-based plan like that in Dade County, FL, does. There is no mention of LEAs at all in S. 695 even though they are clearly in the best position to structure incentives and spur achievement.

As structured, these grants are not incentives, i.e., promised ahead of time then awarded on the basis of performance. Instead, they are simply prizes and therefore of dubious value in spurring the efforts of all schools. Having schools vie for prizes trivializes the hard work teachers and students devote to learning and gives education a certain "game-show" flavor.

Second, the proposal is likely to reward those schools most apt to be making progress anyway. There is little overt recognition in the bill of imbalances in average per pupil spending; in urban, rural and suburban differences; poverty levels, and other factors that create difficult challenges to improve performance. The bill, in fact, does not require SEAs to take any of these or other factors into account, the language is strictly permissive. States would not be allowed to apply differing criteria to public and private schools even if their demography and needs were totally different. Moreover, regional and political factors would compel States to award grants in ways that failed to recognize the toughest challenges.

In addition, the proposal would further contribute to the simplistic notion that things easily measured (e.g., achievement test scores) and learning are one in the same. Further, this measure would feed the popular stereotype that urban schools do not have much of merit to offer, when in reality they are succeeding in many cases against great odds.

Rewarding success is an appealing idea intuitively. But the Council believes that this proposal needs to be totally revamped. There is little in it that would seriously assist in the current education reform movement. The Federal Government should be focusing help on those schools and school systems where gains come hardest.

- *Council Recommendation.* Rewrite the merit schools' proposal to create locally-based incentives for improvement in schools with specific high levels of need.
- *Council Recommendation.* Amend S. 695 to restrict eligibility for incentives to Chapter 1 schools with low achievement and high need, and require that they first develop plans for improvement around which grants are based.

B. *Magnet Schools of Excellence:*

This portion of the bill amends the Magnet Schools Assistance program by authorizing $100 million for magnet schools other than those tied to a desegregation plan. Its purpose is to promote open enrollment through parental choice and to strengthen academic achievement.

Mr. Chairman, the Council of The Great City Schools opposes this plan in its entirety for a number of reasons. First, Congress considered a proposal nearly identical to this when it debated H.R. 5 last year, and disposed of it by authorizing "Alternative Curriculum Schools" once funding for the regular magnet effort reached $165 million. The conference agreement on this matter was not a mistake. The current magnet schools program is a delicate balance between equity and choice factors that should not be disturbed.

Second, local school systems currently offer numerous magnet school programs unrelated to desegregation. The Federal Government has no clear role in supporting magnet schools outside of their desegregation context. Such efforts are usually local priorities supported with local and State funds.

- *Council Recommendation.* Delete the Magnet Schools of Excellence (Part B) from the bill.
- *Council Recommendation.* Transfer $50 million authorized under Part B to the current magnet schools program and $50 million to the urban drug program.

C. *Alternative Certification for Teachers:*

The purpose of this proposal is to increase the supply of well-qualified teachers through alternative certification routes. This goal is laudable, especially for urban schools whose projected shortages are about 2.5 times the national average. Urban schools are also badly in need of Black, Hispanic and South East Asian teachers. Our average enrollment is about 70 percent minority but our average teacher supply is about 70 percent non-minority.

While the Council agrees with the goal, we wonder about the solution. Many school systems, particularly in cities, already use alternative teacher certification measures as practical matter. We are able to attract very talented individuals from business and industry by waiving traditional certification requirements. But this is a stop gap approach and we question its being the sole proposal in this legislation for attracting new teachers.

Federal legislation ought to be relying on the kind of comprehensive approaches for attracting teachers as envisioned by Senators Pell and Kennedy in their respective proposals; i.e., loans waivers, future teachers, teacher aids and others. S. 695 sends the wrong message in suggesting that the only way to attract new talent to teaching is to bypass the present teacher training, certification and organizing mechanisms.

- *Council Recommendation.* Amend S. 695 by incorporating teacher recruitment provisions from other pending teacher bills.

D. *Drug-Free Schools Urban Grants:*

This provision of S. 695 would provide one-time grants to urban LEAs that are having the most severe drug problems. The Council of The Great City Schools strongly supports this addendum to the Drug-Free Schools and Communities Act of 1986. While communities of every kind are experiencing drug use, our major cities are in a crisis of staggering proportions. Yet, the Federal response so far has been legislation that provides precious little to areas most in need.

Under current law, Congress appropriates annually about $354.5 million nationally for drug-abuse education efforts, of which inner-city schools receive about $10.8 million, or 3.1 percent. Funds under this Act are not targeted where the need is greatest, and the Act itself is terribly under-funded.

Too many of our inner-city young people are being lost to drugs. The futures of urban youth are limited enough without drugs, limited by poverty, neglect and isolation. With drugs, however, our young are being trapped in a never-ending cycle of despair. The proposal contained in S. 695 is an important step in addressing this problem, and a crucial recognition of the unique challenges faced by urban schools in moving its students into the mainstream.

- *Council Recommendation.* Approve this part of S. 695 and increase the authorization level for this program to $75 million.
- *Council Recommendation.* Define "urban" as the largest central city in every State and any other central city's LEA whose enrollment is in excess of 30,000 students.

E. *Research, Experimentation and Innovation in Education*

The administration has also proposed an additional $13 million funnelled through the F.I.R.S.T. program for grants to States and localities to expand experiments in educational innovation and data collection. The Council believes that this is a good idea but would like to carry it further by recommending a major expansion in Federal education research, particularly involving urban education.

Much of the national debate over educational quality is a discussion about urban schools. The Nation's failure of these youth will have enormous ramifications for the future of the country. Yet, precious little is known about how urban children could best learn. We need to know much more about how the reform movement is effecting the education of disadvantaged youth in the cities, how to disseminate promising research into the classroom, how the current school-based management strategies effect achievement, how various program strategies work, how to improve access to instructional technology—and how to improve the capacities of large districts to serve as national labs for experimentation and evaluation. New research supported by the Federal Government could help.

- *Council Recommendation.* Authorize $50 million for a National Institute for Urban Education Research.

Mr. Chairman, that concludes our observations and recommendations on the Educational Excellence Act (S. 695). The Council of The Great City Schools will follow with more detailed recommendations. We are largely disappointed with the proposal as submitted but believe that our recommendations, along with others you have heard this morning, will result in a better bill. The problems faced by our Nation's public schools deserve a stronger Federal response than this bill offers. We hope that a more promising response will emerge from these debates.

I would be pleased to answer questions. Thank you for this opportunity to testify.

Senator Pell. Thank you very much indeed. And when you see your plane is going, you're excused any time you wish.

Mr. Marec.

STATEMENT OF RONALD MAREC, PRESIDENT, OHIO FEDERATION OF TEACHERS, CLEVELAND, OH, ON BEHALF OF AMERICAN FEDERATION OF TEACHERS

Mr. MAREC. Mr. Chairman, members of the committee, I am Ronald Marec, president of the Ohio Federation of Teachers, an affiliate of the American Federation of Teachers, AFL–CIO. On behalf of our organization, I wish to thank you for inviting us here to present our union's view on President Bush's education initiative.

We commend the President for his interest and commitment to education. During the 1988 campaign, the President made education a major national issue. It is our hope that the national attention resulting from the campaign will prove valuable for education and inspire more Americans to take greater interest in education.

President Bush's initiative for change and improvement in education, however, is a modest initiative. While we in the AFT do not believe that money is the sole criteria by which to judge this bill, clearly it does represent, however, reform on a shoestring. It is so small and circumscribed that in its current form it will have little impact on the Nation's schools.

Good intentions notwithstanding, the plan to reward outstanding teachers would reach less than one-fourth of 1 percent of our Nation's public school teachers, even if fully funded. Thus, it is unlikely to generate much enthusiasm among the Nation's teaching force.

The bill raises the question of economic incentives as a way of improving education. The President's plan to reward outstanding teachers is a method of providing a financial reward for good teaching.

The merit schools plan, which would take up most of the funds included in this package, is designed as a reward for schools that are doing well. The way the programs in S. 695 are conceived and funded, however, they are unlikely to succeed in stimulating either improved teaching or improved school performance.

The time has come, basically, to create a market incentive for school improvement, and we should try to create one that has a chance of generating a new dynamic in the functioning of public schools.

The merit schools program focuses on improving traditional indexes of school performance, lowering the drop-out rate, increasing college admissions, increasing placements in jobs with career potential, and reducing drug use.

All of these are laudable goals, yet, if each were accomplished under the scope of this bill, very little would change in the ability of America's education system to meet the educational needs of the late 20th century economy.

Unfortunately, the organization and structure of our schools has progressed very little from the time when jobs in a strong manufacturing economy awaited those students who could not succeed in school. If education reform simply means more and better of the current educational system, we will fail to prepare our youth for the society and economy that awaits them.

It is time to do something different. The place to look for educational improvements is in the local schools and among the teachers who work in them. AFT suggests that the merit schools plan in S. 695 be substantially modified and oriented toward locally based education reform activities. If economic incentives are an important source of innovation, then it's time to offer significant economic incentives to the staffs of our public schools.

AFT urges that the time-line for improvement be changed to allow time for planning and for trying something new. We suggest a full five years before the first awards are made. Furthermore, we urge that the awards be based upon the degree to which schools have improved over the allotted time.

The bill allows a special consolidation category for schools with high concentrations of disadvantaged students. Rather than a consolidation category, the program should create a competition which rewards the schools which do the most to improve. This strategy would require something that our society is not noted for, delayed gratification, as we wait five years for results instead of having an annual extravaganza where the victors are presented with their rewards.

The strategy would also require planning on the part of school districts and the development of an evaluation technology that exceeds what is currently available.

Finally, we suggest that the funds which would have been awarded on an annual basis be accrued so that after five years it could be possible to present sizable cash awards of $10,000 or more for a qualifying individual. States could match Federal funds or seek business support on a school district-wide basis. If economic incentives are good for the rest of the economy, why not apply the same principles to schools in a meaningful way?

The AFT stands ready to work with this committee to iron out some of the many details that a plan like this would entail. It is important that this legislation not be considered in haste. If the plan, as adopted, has little effect on our Nation's schools, the public will become cynical about school improvement. A program with little or no impact, simply because the Education President couldn't find enough resources for one that would work, would be the worst possible outcome of this exercise.

The other parts of the President's program also leave a lot to be desired. And in my written testimony there is a short analysis of the AFT's positions on those matters.

With that, I would like to thank the committee for this opportunity to appear before it.

[The prepared statement of Mr. Marec follows:]

PREPARED STATEMENT OF RONALD MAREC

Mr. Chairman, Members of the Committee: I am Ronald Marec, president of the Ohio Federation of Teachers, an affiliate of the American Federation of Teachers AFL-CIO. On behalf of our organization and myself, I want to thank you for inviting me here to present our union's views on S. 695, President Bush's education initiative.

We commend the President for his interest in and commitment to education. During the 1988 campaign, the President made education a major national issue. It is our hope that the national attention resulting from the campaign will prove valuable for education and inspire more Americans to take a greater interest in education—even if they don't have children in school. S. 695 is President Bush's initiative for change and improvement in public education. However, it is a modest initiative. While we in the AFT do not believe that money is the sole criterion by which to judge this bill, S. 695 is clearly reform on a shoestring. It is so small and circumscribed that, in its current form, it would have little impact on the Nation's schools. Good intentions notwithstanding, the plan to reward outstanding teachers would reach less than one-fourth of one percent of our Nation's public school teachers, if fully funded. Thus, it is unlikely to generate much enthusiasm among the Nation's teaching force. The overwhelming majority of teachers would scarcely be aware of the program's existence.

S. 695 raises the question of economic incentives as a way of improving education. The President's plan to reward outstanding teachers is a method of providing a financial reward for good teaching. The merit schools plan, which would take up most of the funds included in this package, is designed as a reward for schools that are doing well. The way the programs in S. 695 are conceived and funded, they are unlikely to succeed in stimulating either improved teaching or improved school performance. If the time has come to create a market incentive for school improvement, we should try to create one that has a chance of generating a new dynamic in the functioning of public schools.

The merit schools program in S. 695 focuses on improving traditional indexes of school performance—lowering the drop-out rate, increasing college admissions, increasing placements in jobs with "career potential", and reducing drug use. All of these are laudable goals, yet, if each were accomplished under the scope of this bill, very little would change in the ability of American education to meet the educational needs of a late 20th century economy. Unfortunately, the organization and structure of our schools has progressed very little from the time when jobs in a strong manufacturing economy awaited those students who could not succeed in school.

If education reform simply means more and better of the current educational system, we will fail to prepare our youth for the society and economy that awaits them. For many years now, our education system has been able to effectively educate only about 25 percent of the students who attend school. Through World War II, the drop-out rate was about 50 percent, and only about one-quarter of our students were educated well enough to succeed in college. Current indices of educational achievement, as reflected in the data produced by the National Assessment of Education Progress, show that, while we have cut the drop-out rate in half, still only about one-quarter of our students leave high school with an education that prepares them for college or complex training.

It's time to do something different. The place to look for educational improvements is in the local schools and among the teachers who work in them. AFT suggests that the merit schools plan in S. 695 be substantially modified and oriented toward locally-based education reform activities. If economic incentives are an important source of innovation, then it is time to offer significant economic incentives to the staffs of our public schools.

AFT urges that the time-line for improvement be changed to allow time for planning and for trying something new. We suggest a full five years before the first awards are made. Furthermore, we urge that the awards be based upon the degree to which schools have improved over the allotted time. S. 695 allows a special consolidation category for schools with high concentrations of disadvantaged students. Rather than a consolation category, the program should create a competition which rewards the schools that do the most to improve.

This strategy would require something that our society is not noted for—delayed gratification—as we wait five years for results instead of having an annual extravaganza where the victors are presented with their rewards. This strategy would also require planning on the part of school districts and the development of an evaluation technology that exceeds what is available today. Finally, we suggest that the funds which would have been awarded on an annual basis be accrued, so that after five years it could be possible to present sizable cash awards of $10,000 or more per qualifying individual. States could match Federal funds or seek business support on a school district-wide basis. If economic incentives are good for the rest of the economy, why not apply the same principles to schools in a meaningful way? The AFT stands ready to work with this committee to iron out some of the many details that a plan like this would entail. It's important that this legislation not be considered in haste. If a plan is adopted that has little effect on our Nation's schools, the public will become cynical about school improvement. A program with little or no impact, simply because the "Education" President couldn't find enough resources for one that would work, would be the worst possible outcome of this exercise.

The other parts of the President's program also leave a lot to be desired. I am enclosing a short analysis of the AFT's views on the rest of S. 695. We hope that an opportunity is not missed because of timidness. The public and the education profession are ready to try something different. However, what is proposed in S. 695 is just a little more of the same medicine that has not worked for the past 25 years. We hope this record of relying on old bromides is about to change. This committee could make it so.

ADDITIONAL AFT CONCERNS

Twenty-five million dollars for States to change their laws regarding the certification of teachers is unnecessary. It is hard to see why States need money to change their own laws. If existing licensing of teachers is an impediment to recruiting a quality work force, why would the States wait for $25 million from the Federal Government before they revise their practices?

The facts are that no amount of tinkering with State licensing will produce the 1.2 million new teachers needed to staff our schools. Financial incentives, utilization of new learning technology and increased professionalization are needed to meet the shortage that is already affecting the schools.

The proposal for new magnet schools is a return to the Emergency School Aid Act that was repealed by President Reagan's budget cut bill in 1981. AFT supports magnet schools, but by themselves, magnet schools do little to improve our Nation's education.

Scholarships for science and math students are so small that the supply will scarcely be improved. At the same time the Reagan-Bush budget proposes to repeal the existing Paul Douglas Teacher Scholarship program, which provides $15 million per year for bright high school graduates who wish to become teachers. Math and science students are in such short supply because elementary school teachers are frequently under-trained in this area. A good approach to improving math and science instruction is to start in a student's formative years. This requires a better trained teacher force especially in the elementary schools.

Twenty-five million dollars for drug-free schools is a drop in the bucket in the fact of a massive national catastrophe. AFT leaders report that most of the students whose behavior can be changed by education on the dangers of drug abuse are now being reached. Unfortunately, some young people seem to have made an economic decision about drug involvement in spite of the risks they know exist. These young people will not be swayed by anti-drug videos. The best method of fighting drug abuse among the (AK) is providing them with a future—a chance for college and/or a good job.

In conclusion, it seems that the campaign which called for an education "Renaissance" has foundered on the fact that education is not a real priority at all. President Bush's concern about the lives of children in our inner cities did not match up to his desire to pay for a cut in the capital gains tax or to provide a $100 billion bailout for the crooks who robbed the FSLIC blind over the last few years.

Education, and a commitment to it, are a matter of priorities, as is everything the Federal Government does. It is clear from this package which tries to do things with symbolic little programs, that education is pretty far down the list when it comes to putting the resources where campaign rhetoric claimed President Bush's heart was.

Senator **Pell**. Thank you very much indeed, Mr. Marec.

Mr. McCully, the president of the board of education of El Dorado Unified School District, El Dorado, KS.

STATEMENT OF LARRY McCULLY, PRESIDENT, BOARD OF EDUCATION, EL DORADO UNIFIED SCHOOL DISTRICT, EL DORADO, KS, ON BEHALF OF NATIONAL SCHOOL BOARDS ASSOCIATION

Mr. **McCully**. Thank you, Senator Pell.

I believe you do have the full copy of my testimony.

I am Larry McCully, a school board member from El Dorado, KS, and I am pleased to have this opportunity to testify on behalf of the National School Boards Association.

NSBA believes that President Bush's education initiative, the Educational Excellence Act of 1989, can make a positive contribution to the improvement of educational quality. However, several key concerns must be addressed before local school boards can enthusiastically support this legislation.

First, it must be recognized that S. 695 is limited in scope. It does not address many significant and serious unmet needs of education across our Nation.

In writing the book on what role the Federal Government should play, this legislation is only a first page, in our view. Certainly, we hope it is not the final chapter in what we believe is President Bush's genuine desire to raise the Federal Government's education priority.

A second fundamental concern is funding. The administration's budget package funds this initiative at the expense of increases necessary to sustain service levels for Chapter 1 and other successful programs for children with special needs. We cannot, therefore, support subordinating ongoing services for special needs to the creation of a new program. We recommend the addition of funding triggers to protect programs like Chapter 1 and handicapped education against such funding shifts.

Let me make several specific recommendations on the substantive aspects of the administration's proposals.

First, NSBA supports the merit school concept of rewarding schools which make progress toward improving educational quality. But NSBA believes that the selection should place a greater emphasis on funding schools with high concentrations of disadvantaged students. We recommend targeting at least one-half of the award funding to Chapter 1 schools.

Second, recipient schools should also be required to have a demonstrated need or use for funds. Why fund schools that do not need more money to succeed when there are many other schools in desperate need of additional dollars?

Third, the bill needs to provide a clearer role for the local educational agency in the award process. The bill does not recognize that individual schools just use funds in a manner consistent with district-wide policies, written contracts, and the educational objectives of the school system.

Finally, we urge the subcommittee to consider combining the objectives of this section with those of the unfunded secondary school basic skills and drop-out prevention programs. That program is authorized at $400 million for fiscal year 1990 and could well accommodate a merit schools award component.

The Magnet Schools of Excellence Program has the admirable goal of expanding educational choices for students and parents and strengthening school programs. However, this proposal implies that schools currently being operated with Federal assistance for the purposes of school desegregation are not magnet schools of excellence. Yet many, if not most, of those schools are widely recognized as models of educational innovation and excellence.

Another significant concern is that the Magnet Schools of Excellence Program would divert funding from magnet schools that are part of present desegregation plans. NSBA recommends that the proposal include a trigger that would allow funding for Magnet

Schools of Excellence only after appropriations for the magnet school assistance program reached $200 million.

School boards are greatly aware of the need to expand the pool of talented and motivated teachers and school administrators available to our public schools. We support Federal assistance for alternatives to traditional certification. One of the most significant obstacles which prospective candidates for alternative certification face is not addressed by this bill, and that is—financial support for retraining. A Federal contribution for training, such as stipends, loans or grants would greatly increase the feasibility and attractiveness of alternative certification.

But we must also note that alternative certification is but one step among many that must be taken to assure that the Nation's schools have an adequate supply of well-trained professionals, including minorities and specialists in math and science.

We urge the committee, and the administration, to pursue a more comprehensive and well-funded effort immediately.

NSBA is also generally supportive of the programs for presidential awards to teachers, science scholars, and the urban drug emergency grants. However, it should be recognized that those helpful programs are small and not by themselves a national solution for adequate teacher compensation, the production of science scholars or eliminating drugs in urban schools.

With the adoption of the recommendations which we have offered, NSBA believes that the administration's legislative package can be a viable contribution to existing programs. But it is only a preface to defining the vital role in which our Federal Government, particularly an "Education" President, must play in assuring educational progress into the competitive world of the 21st century. Because our Nation's educational challenge is so great, we urge the administration to expand the scope of its initiatives and promote them more aggressively.

Thank you again for the opportunity to testify before the subcommittee today.

Senator **PELL**. Thank you very much indeed, and for your suggestions.

[The prepared statement of Mr. McCully follows:]

PREPARED STATEMENT OF MR. MCCULLY

I am Larry McCully, a school board member from El Dorado, KS. I am pleased to have this opportunity to testify before the subcommittee on behalf of the National School Boards Association (NSBA), which represents the 95,000 local school board members across the country who set policy for the education of our school children.

NSBA believes that President Bush's education initiative, the "Educational Excellence Act of 1989" (S. 695) can make a positive contribution in the improvement of educational quality. However, several key concerns would need to be addressed before local school boards can support that legislation.

A fundamental concern, and it is one which is expressed throughout my testimony, is the matter of funding priorities. In this regard, we are concerned that the administration has proposed to fund this legislation within a budget package that would reallocate the funding increases necessary to sustain service levels for Chapter 1 and other successful programs for children with special needs. At the local level where implementation occurs, we cannot support subordinating on-going services for special needs to the creation of a new program. Therefore, we recommend the addition of funding triggers to protect against that.

Further, it should be recognized that S. 695 is a limited piece of legislation both in terms of addressing the specific program needs which it identifies, and in terms of addressing the significant and serious unmet needs of education. Hence, in fulfilling the role which must be played by the Federal Government, this legislation is only the first page in the book. Certainly, it cannot be the final chapter in what we believe is President Bush's genuine desire to raise the Federal Government's education priority.

With these introductory points in mind, I would like to comment on the substantive aspects of the administration's proposals.

The stated purpose of the merit school program is to reward schools which have made progress toward (1) raising student achievement; (2) creating a safe and drug-free school environment, and (3) reducing the drop-out rate. Although these are laudatory legislative objectives, several concerns would need to be addressed before NSBA can offer its support.

First, NSBA believes that the basic criteria for the State selection of merit schools should place a greater emphasis on funding those school sites which have high concentrations of disadvantaged students. Since one-half the State allocation formula is based on low-income children, we recommend that the States be required to target at least one-half of award funding to Chapter 1 schools. Further, recipient schools should be required to have a demonstrated need or use for funds that are not otherwise reasonably within the financial capability of the school district to provide. In this regard, although we fully agree with Section 4708(c)(4), which effectively prohibits State departments of education from conditioning awards to their own programmatic requirements, we believe the provision goes too far by implying that a school can receive funds even if it has no plan or need for the particular amount of the award.

Second, provisions in the bill relating to State criteria for making awards and for guiding the local use of funds are more specific to activities at the high school level than the elementary or middle school levels. Accordingly, it is not clear whether the emphasis is on the secondary level, or whether awards to the elementary level are not intended to have any federally legislated guidance. In addressing the secondary level, we urge the subcommittee to consider areas of overlap between the objectives of this bill and the yet unfunded Secondary School Basic Skills and Drop-out Prevention Program which was enacted last year. That program is authorized at $400 million for fiscal year 1990 and could well accommodate a merit schools award component.

Third, the bill does not establish or address the role and responsibilities of the local education agency in the award process. Under the section relating to the local use of funds, the bill does not recognize that individual schools should use these funds in a manner consistent with the district-wide policies, contracts, and educational objectives of the school system. By failing to do so such unintended results can occur as the contravention of court desegregation orders, inconsistencies with union agreements, as well as inconsistencies with the overall policies and State operational mandates that apply to the district as a whole.

Fourth, we have several questions relating to State administration. With five percent of funds set aside for administration, $25 million per year would be spent for that purpose at the fully authorized level of $500 million. Restated, assuming an average award of $100,000 per recipient, an administrative expenditure of $5,000 per award seems excessive.

Fifth, the bill only allows awards to be made to schools which have made progress over some unspecified period of time. NSBA urges that school sites which have exhibited sustained long term achievement be eligible as well.

Sixth, as I indicated at the outset, we urge that the program include a funding trigger to ensure that it results in an increased Federal commitment, rather than a reallocation of funds at the expense of those existing programs targeted to children with special needs. Indeed, at a time of scarce Federal funding, we believe that this trigger, as well as, the targeting recommendations, which we have made, are critical. In the absence of such provisions, the legitimate policy question can be asked: Why fund schools that do not need more money to succeed—when there are other programs in desperate need of additional dollars?

Title I, Part B of S. 695 proposes a new program of Magnet Schools of Excellence. This program has the admirable goals of expanding educational choices for students and parents and strengthening the knowledge of students in academic and vocational subjects.

However, the proposal creates an invidious comparison with the existing Magnet School Assistance Program, which this subcommittee reauthorized just last year as part of the Hawkins-Stafford School Improvement Amendments of 1988. The primary purpose of the Magnet Schools Assistance Program is to provide Federal assistance to the hundreds of school districts operating magnet schools as part of a desegregation plan. While we assume it is unintentional, the title of the program proposed under S. 695 implies that magnet schools currently being operated with Federal assistance for the purposes of school desegregation are not "magnet schools of excellence."

This implication is not only unfortunate but also clearly inaccurate because many, if not most, of the magnet schools currently receiving Federal assistance are widely recognized as models of educational innovation and excellence. In fact, it is schools such as those in Buffalo, NY; Montclair, NJ, and St. Paul, MN, that have made the case for the value of expanding educational choices for parents and students.

Another significant concern is that the Magnet Schools of Excellence Program, authorized for $100 million, would divert funding from magnet schools that are part of desegregation plans unless a clear commitment is made to also fully fund the existing magnet schools assistance program. The president's budget for fiscal year 1990 does not request any increase in funds beyond the $113.6 million appropriated in fiscal year 1989 for the Magnet Schools Assistance Program.

In the current grant cycle, 140 school districts have applied for funds but the Department of Education has indicated it has only enough funds to award fifty-five grants. Therefore, eighty-five school districts with magnet school programs that are part of desegregation plans will go unfunded at the same time that a new $100 million program is proposed to fund additional school districts without desegregation plans. Such a policy would not be equitable nor consistent with the longstanding Federal commitment to assist school desegregation.

Local school boards could not support Magnet Schools of Excellence without a provision that gives special consideration to those school districts implementing desegregation plans. In addition, a trigger should be added that would prohibit new appropriations for Magnet Schools of Excellence until appropriations for the Magnet School Assistance Program reached $200 million.

Title I, Part C would create a $25 million State-based program of assistance for alternative certification of teachers and principals. School boards are greatly aware of the need to expand the pool of talented and motivated teachers and school administrators available to our public schools.

In the next decade, large numbers of our most experienced educators will be retiring while at the same time fewer top quality students are enrolling in teacher preparation programs. Already serious shortages in the critical areas of mathematics and science education have developed. In addition, the continuing decline in the numbers of minority students attracted to teaching is creating a new crisis of absent role models in many classrooms where demographic trends predict growing minority enrollments.

We support this program to allow States to develop or expand on alternatives to traditional certification for individuals who have demonstrated a high level of competence in a particular subject area or in management or leadership qualities. We make several recommendations to refine this proposal.

First, the $25 million program does not authorize enough money to justify the inclusion of all fifty States. It would be more of an incentive to make larger grant awards available to those States interested in applying on a competitive basis.

Second, making the program only one year in duration needlessly limits the effectiveness of this initiative. It may take several years before all States are prepared to avail themselves of this opportunity while others could benefit from several years of sustained support. The program should be authorized for at least three years.

Third, one of the most significant obstacles which prospective candidates for alternative certification face is financial support during the period of retraining which is often required in the better alternative programs currently in operation. This is often in addition to the prospect of a significant reduction in salary that is required of candidates after they successfully make the transition to the teaching profession from the private sector.

Clearly, a Federal role in underwriting some part of this transition through the provision of training stipends and loans or grants would greatly increase the feasibility and attractiveness of the alternative route to many experienced and talented people currently in other occupations.

Finally, we must note that alternative certification programs can only hope to play a supplemental role in any serious comprehensive plan to improve the quality of school professionals. It will take many more steps to assure that the Nation's schools have a good proportion of well-trained minority professionals on staff and sufficient number of math and science teachers to help our graduates be competitive in the world economy. We urge the committee, along with the President, to pursue such a comprehensive and well-funded effort immediately.

The concept of a Presidential Award of $5,000 for outstanding teachers is attractive. However, at an authorized level of $7.6 million, the average State would be limited to approximately 28 such awards per year. The point is, this funding level would only reward one teacher out of 1,600 which we believe will result in a substantially less motivating factor than what the bill contemplates.

In view of the limited funding contemplated for the program, a $200,000 set aside for a national award ceremony seems excessive, especially since the current Teacher of the Year program probably fulfills the public relations functions which the legislation seeks. We have a comparable concern over the open-ended allowance for such ceremonies in each of the 50 States.

The criteria listed by which teachers would be selected are targeted on excellence in the area of special programs, such as the disadvantaged or gifted, as well as on curriculum innovation and other types of special programs. We do not object to the specific items enumerated on the list, and we recognize that they are offered only as examples. Nonetheless, we urge that this permissive list of guiding examples also include teachers who have been outstanding successes in teaching the "typical" curriculum to "typical" children.

The proposed $5 million program for National Science Scholars will be a welcome addition to the variety of Federal grant and loan programs currently on the books.

Likewise, given the priority needed to eliminate drugs from the environment of our youth, a new $25 million Urban Emergency Grant program presents a beneficial complement to current Federal efforts.

With regard to grants for Historically Black Colleges and Universities, NSBA recognizes the need to assist these institutions, and therefore supports viable efforts toward that end.

Hence, in addressing Title II and III, NSBA is generally supportive. However, it should be recognized that these helpful programs are small—which by themselves are not a national comprehensive panacea to the production of national science scholars or to eliminating drugs in urban schools.

In conclusion, the administration's package is a well-intentioned step in the right direction. With the adoption of the recommendations which we have offered, NSBA believes that this proposal can be a viable complement to existing programs. However, as we have indicated throughout our statement, this proposal is but a down payment in defining the vital role which our Federal Government, including an "Education" President, must play in assuring educational progress into the competitive world of the 21st century. Because our Nation's educational challenge is so great, we urge the administration to more actively promote and expand its initiatives.

Meanwhile, NSBA would be pleased to provide the subcommittee whatever assistance we can, should it decide to give further consideration to this legislation.

Thank you for the opportunity to testify before the subcommittee today.

Senator **Pell**. Dr. Thomas, incidentally, Senator Simon's plane is being delayed. He wanted to be here to introduce you. He asked me to relay his good wishes to you, Dr. Thomas.

STATEMENT OF DR. CHARLES R. THOMAS, SUPERINTENDENT OF SCHOOLS, ELEMENTARY SCHOOL DISTRICT 64, NORTH CHICAGO, IL, ON BEHALF OF AMERICAN ASSOCIATION OF SCHOOL ADMINISTRATORS

Dr. **Thomas**. Thank you very much.

Mr. Chairman, my name is Charles Thomas. I am superintendent of schools of North Chicago Elementary School District, North Chicago, IL. Our district is a district that has the distinction of being the home of the Great Lakes Naval Training Station. So you can see that we are heavily impacted, approximately 50 percent impacted.

I am here also as the chairman of the Federal Policy and Legislation Committee of the American Association of School Administrators. I am chairman of that committee. AASA is an organization that represents over 18,000 superintendents across the country.

Let me begin by thanking you for allowing us the opportunity, those of us who run the schools and operate them throughout the country, to make a few remarks before this subcommittee.

We are generally pleased with the education initiatives of the President. However, we are concerned about the merit school program because we believe that there is a legitimate concern that the whole question of merit and how those schools will be judged can stand in question. Schools serving middle or wealthy students would have an unfair advantage, we believe, over the less-advantaged schools.

I would like to spend much of my time, or the time that we have left, talking about perhaps some new ground because we believe that while we welcome the initiatives in S. 695, Mr. Chairman, we believe that the ideas are good but there are things that have been left out in terms of providing the financial underpinning necessary to make the initiatives that the President talks about a reality and to make the programs that are already on the books a reality in terms of their reaching their full potential.

We believe that in order to maximize educational opportunities for all youngsters, we need to increase the discretionary pie that is available to fund those programs. Now, while we talk about adding programs, no one has talked about how we are going to provide the funding and where the funding is going to come from.

I represent the Federal Policy and Legislation Committee, and our direction is very clear. We have stated as our position at our January meeting that we believe that all existing Federal programs need to be fully funded before any new programs are created.

Mr. Chairman, we believe that you and your colleagues have an opportunity to break new ground. You have an opportunity to take a historic step by accomplishing the goal for reaching those children in whose future our country rests. We believe that by creating a children's trust into which funds could be invested, which would be a dedicated tax for education out of which would flow the funding necessary to fully fund Head Start, the Chapter 1 program, and the education for all handicapped and health care programs for children and any new Federal child care initiative.

The specifics of the trust obviously cannot be outlined in detail here, but we have that as part of the full testimony which you have, and I would commit that for your consideration.

Given the fact that the public has been very consistent in polls throughout the country saying that they would be willing to raise taxes for education, we believe that a small increase in the income tax, generating $25-30 billion per year for the trust, is politically achievable.

We also believe that this subcommittee is the particular body that can most readily make the case for the children's trust to your colleagues, since you are the guardians of the programs serving the most vulnerable and the most valuable members of our society.

The children's trust is an idea that was developed by Jules Schugarman, who is the State secretary of social and health services in Washington, the State of Washington. First, it would be acknowledged that this would provide a long-term partnership that exists on behalf of children between the Federal, State and local Governments.

Second, it would be based on earmarked revenue source, which we don't have now. It's all in a discretionary pie, and that pie is small and it has not enlarged.

Third, it would create a network of programs designed to sever the crippling connection that now exists in our society between opportunity and family income.

Fourth, it would provide a basis for expanding child care to all families wishing to participate.

We offer, Mr. Chairman and members of the committee, what I believe is a very modest proposal. What our Nation faces if we continue to ignore the demographic profile of the children in whom we must invest to expand our economy and to keep our factories running, it is certain that they will slip into second- and third-class citizenship status.

For the sake of the Nation, for the sake of the children, we urge you to incorporate the children's trust concept into S. 695.

Finally, Mr. Chairman, I would like to state once again that we believe that the ideas contained in S. 695, as they now stand, are good ideas, but we need a foundation to sustain them if they are to help our Nation achieve the long-term success. Thank you very much.

Senator PELL. Thank you very much, Dr. Thomas.

[The prepared statement of Dr. Thomas follows:]

PREPARED STATEMENT OF DR. CHARLES THOMAS ON BEHALF OF THE AMERICAN ASSOCIATION OF SCHOOL ADMINISTRATORS

Mr. Chairman and members of the Subcommittee, my name is Charles Thomas, and I am Chairman of the Committee on Federal Policy and Legislation of the American Association of School Administrators, the organization representing the more than 18,000 local superintendents and school executives on whose behalf I am testifying today.

Let me begin, Mr. Chairman, by thanking you for giving those of us who actually operate local schools an opportunity to appear before you today. We are grateful for the leadership you have shown for education over the years.

At the time the President unveiled the programs proposed in S. 695, we welcomed his emphasis on Merit Schools, presidential excellence awards, math-science scholarships, drug-free schools and Historically Black Colleges and Universities. The only aspect of his program with which we might disagree are the Magnet Schools of Excellence, which we believe are a duplication of programs authorized in "Alternative Curriculum Schools," Section 4606 of Public Law 100-297, the Hawkins-Stafford Amendments.

With respect to Merit Schools, we believe awards must be balanced, so as not to discriminate. Schools serving middle class or wealthy students would have an unfair advantage over schools serving less advantaged students. Merit, to be balanced, must be based on gains for at least the first few years. Second, the means for determining what is "merit" must be clear and fair. The concept of merit awards is wonderful, but there is no current standard of merit that has a national consensus. Problems with cultural and sexual bias exist with standardized achievement tests and the tests, generally, are no more related to success in life than other measures, such as family income. The basis for merit would be a great topic for a national educational policy debate. Business, academe, political leaders and educators could, in fact, probably agree on merit and produce the yardsticks.

We believe that through S. 695 you can continue to shape federal programs to make them consistent with school reform efforts in states and school districts. These efforts emphasize the professionalization of education, the elimination of excessive bureaucracies, and the involvement of parents and business leaders in schools. Professionalizing education is a long term process that includes attracting the best with high salaries and excellent working conditions, rigorous undergraduate and professional preparation, a life-long commitment to professional growth, and a work environment that requires participation in professional decisions. To the extent that you shape S. 695 in a way that reinforces those practices and trusts educators to fulfill their role without the burden of excessive federal and state prescriptions, you will enhance education and the lives of children.

While we welcome the initiatives in S. 695, Mr. Chairman, we who administer local schools respectfully suggest that this legislation is incomplete. As it now stands, the programs in this bill represent the icing on a cake that has not yet been baked.

The President's proposals seem to be a rehash of programs now in place in one or more states. Governor Thomas Kean warned in the forward to Results in Education 1987, "Those who would be president should speak to national needs in education, but should not just recast gubernatorial programs." An examination of the programs in the President's proposal finds that Merit

Schools looks a good deal like the A+ program of Governor Robert Orr of Indiana; the initiative on deregulation looks like the proposal of Governor Roy Romer of Colorado to develop creativity zones; the proposal on alternative certification is very similer to the proposal of Governor Thomas Kean of New Jersey; and the proposal on teacher recognition follows the programs of many states and local school boards, but probably Lamar Alexander of Tennessee should be given credit. The states are already addressing the ideas in the President's proposal. The national need to address the burgeoning number of poor children, children born drug addicted, and children who lack quality child care is not addressed by the President or as yet by Congress. It is the National problems of children that AASA submits should be added to S. 695. The states are doing fine in addressing the subsets of education policy, for which they, after, all are constitutionally responsible.

It is a disgrace that in 1989 family income is still the best predictor of a child's life opportunities and educational achievement. AASA would like to issue a call to sever the connection between income and opportunity.

The Department of Education and the Department of Health and Human Services currently administer a handful of powerful, existing programs--programs that we know deliver solid results for children--but which are not having the impact they should, because of a lack of federal dollar commitment.

The AASA committee I chair, Mr. Chairman, clearly established our position on this issue in January when we stated that the federal government should "fully fund existing educational programs," before any new programs are created.

You and colleagues have the opportunity, through this legislation, to make sure that the commitment to disadvantaged young people, to the federal role of promoting equity and equality in education, is carried to fruition. It is a goal to which we all aspire but the attainment of which is frustrated by the explosive growth of spending on defense, entitlements and interest payments on the national debt, and the concomitant shrinking, under Gramm/Rudman/Hollings, of federal discretionary spending. I ask you to recall that there are no entitlements for poor or handicapped young children in education; every nickle of elementary and secondary education funding is discretionary.

You can take an historic step toward accomplishing the goal of reaching those children, whose future is our economy's only hope, by creating a Children's Trust into which could be invested funds from a dedicated tax for education, and out of which could flow the funds necessary to fully fund Head Start, the Chapter 1 program of compensatory education for disadvantaged children, the Education for All Handicapped program, health care programs for children, and any new federal child care initiative.

The specifics of the Trust obviously would have to be negotiated between this Committee and the Finance Committee. We believe that funds for the Trust should derive from a permanent, progressive tax, the revenue from which would be dedicated to the Trust, much like Social Security and its tax.

Given that the public consistently states in national polls that it is willing to pay more taxes for education, we believe a small increase in the income tax, generating $25 to $30 billion per year for the Trust, is politically achievable. We also believe that this Committee is the body that can most readily make the case for the Children's Trust to your colleagues, since you are the guardians of programs serving the most vulnerable and valuable members of our society. You know that if we fail now to invest in them, we will have no future.

The Children's Trust--as we have sketchily outlined here and as Washington State Secretary of Social and Health Services Jule Sugarman has proposed in far greater detail--would have several key elements:

First, it would be an acknowledgement of the long-term partnership that exists on behalf of children between federal, state and local government.

Second, it would be based on an earmarked revenue source.

Third, it would create a network of programs designed to sever the crippling connection that now exists in our society between opportunity and family income.

Fourth, it would provide a basis for expanding child care to all families wishing to participate.

What we offer, Mr. Chairman and members of the Subcommittee, is a modest proposal. What our nation faces, if we continue to ignore the demographic profile of the children in whom we must invest to expand our economy and keep our factories running, is a certain slippage to second or third class economic status.

For the sake of our nation, for the sake of our children we urge you to incorporate a Children's Trust into S. 695.

Finally, I would like to state, once again, that we believe the ideas contained in S. 695, as it now stands, are good. But they need a foundation to sustain them, if they are to help our nation achieve long term success.

THE CHILDREN'S TRUST

Executive Summary

There is widespread agreement that services to children and families need substantial expansion and improvement. Many federal programs for children and families are at lower than desirable quality or dramatically underfunded in terms of documented need. In addition, new legislative proposals are now before Congress and appear to have strong support from a policy point of view. However, there is very little confidence that funding will be provided commensurate with the need. Thus, while Senators and Congressmen talk about critically needed child care with an estimated need for **$15 - 50 billion** they are talking about legislation with well short of **$2 billion** in funding. They do so because they are trapped by the arguments about the federal deficit and have not yet been presented with ideas as to how new funding might be derived.

It is time for the advocates of children, youth and families to forthrightly deal with the revenue issue. This paper does just that. It proposes to establish a new trust fund entitled The Children's Trust. After considering other sources of funding, it is proposed to fund the trust through payroll taxes collected from employers and employees. The process is analogous to that used to finance Social Security retirement. The schematic following this page illustrates how the Trust would work.

It is estimated that in the fifth year, with contributions at the three tenths of a percent level (*.3 percent*) each for employers and employees, the Trust Fund would be receiving **$19,600,000,000**. Alternatively, similar amounts might be raised by removing the "cap" on taxable wages and earnings (*currently about $45,000*) and taxing to a higher level of income.

Either method could produce an increase of nearly seventy percent *(70%)* in funding for children's programs.

The proposal specifies that the trust be in addition to existing levels of appropriations (*mandated appropriations*). Funds would be appropriated to both social security act children's programs (*Part A*) and other federally authorized programs *(Part B)*. The Part A funds would be allocated among the states based on a formula which takes into account number of children, people in poverty and per capita income. Part B funds would be allocated in accordance with the laws applying to each specific program.

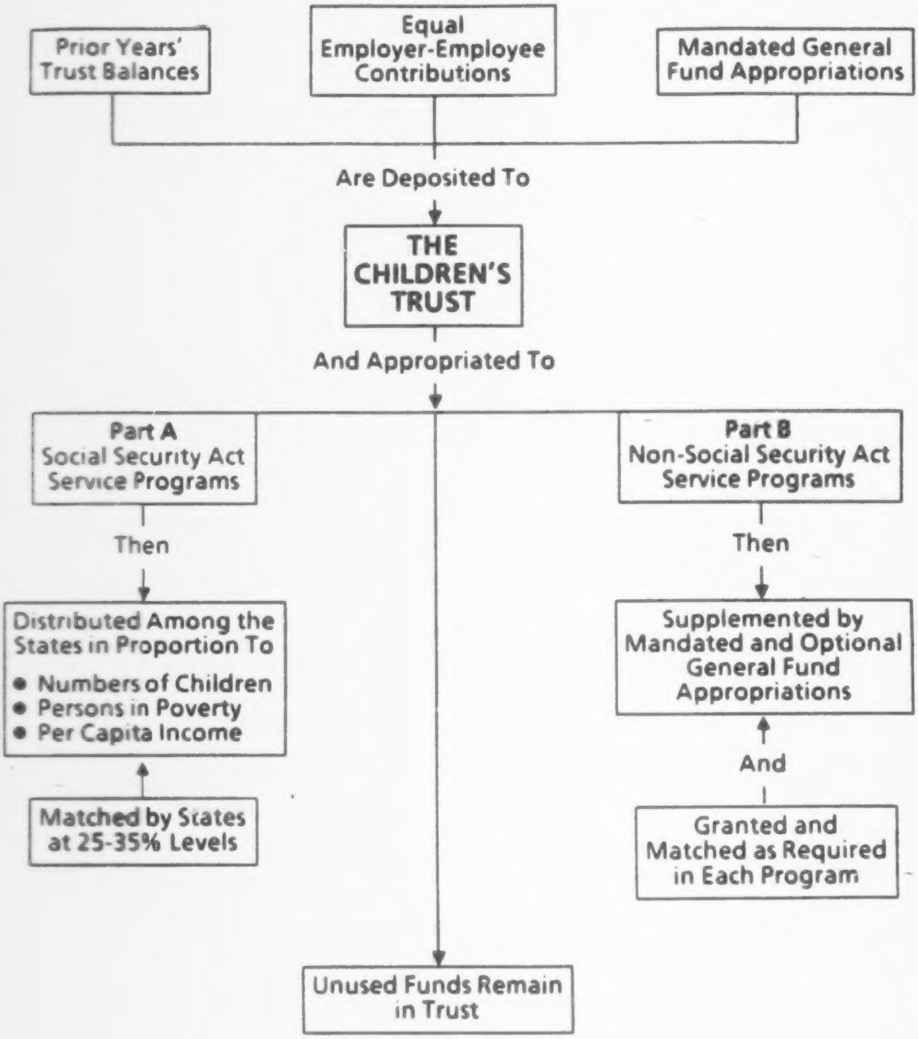
The proposal essentially creates a much enlarged pool of revenues from which Congress can appropriate funds to improve program quality, expand services and add new services. Initially funding would be available for at least 67 programs. It permits new programs to be added. The proposal does not change current law on targeting of funds, eligibility for services, eligible grantees, program requirements, reporting, evaluation, and accountability. It does not change committee jurisdictions over substantive legislation.

The approach suggested merits serious consideration by all advocates of children, youth and families. The author invites reactions and suggestions for improving the program from all interested parties.

Schematic A

CHILDREN'S TRUST

Revenues and Appropriations


Prior Years' Trust Balances
Equal Employer-Employee Contributions
Mandated General Fund Appropriations
Are Deposited To
THE CHILDREN'S TRUST
And Appropriated To
Part A Social Security Act Service Programs
Then
Distributed Among the States in Proportion To
• Numbers of Children
• Persons in Poverty
• Per Capita Income
Matched by States at 25-35% Levels
Part B Non-Social Security Act Service Programs
Then
Supplemented by Mandated and Optional General Fund Appropriations
And
Granted and Matched as Required in Each Program
Unused Funds Remain in Trust

Schematic B

Listing of Part A and Part B Programs and FY89 Appropriation Levels (In Millions)

(from President's Budget)

Part A Social Security Act Service Programs

Title IV-B	Child Welfare	$ 239
[illegible]e IV-E	Child Support and Paternity	368
[illegible]e IV-E	Foster Care and Adoption	1,075
[illegible]e V	Maternal and Child Health	561
Title XIX	Medicaid b/	4,661
Title XX	Social Services	1,611 a/
	Total, Part A	$ 8,515

Part B Non-Social Security Act Service Programs

Human Development Services	
Head Start	$ 1,208.0
Runaway and Homeless Youth	26.0
Child Abuse	16.0
Dependent Care Planning	8.0
Family Violence Grants	8.1
Developmental Disabilities	78.0
Health Services	
Infant Mortality	20.0
Immunizations	102.0
Adolescent Family Life	9.7
Family Planning	140.0
Food Programs	
Special Milk	20.1
Child Nutrition	4,762.0
WIC Supplemental Feeding Programs	1,931.2
Work Programs	
Summer and Youth Employment	718.0
Federal Job Corps	690.0

Part B Continued

Education Programs	
Education f[illegible] Handicapped	1,791.0
Education f[illegible] Disadvantaged	4,513.0
Vocational and Adult Education	881.1
Research	81.0
Special Programs	2,901.2
Other	
Foster Grandparents	113.0
VISTA	23.0
Missing Children	4.0
National Institute for Child Health and Human Development	210.0
Total, Part B	$ 20,254.4

Services Not Included (Note)

- Tribal Health Services
- Food Stamps
- AFDC
- Community Health Centers
- Migrant Health Centers
- Alcohol, Drug Abuse and Mental Health
- Refugee and Entrance Assistance
- Higher Education

See Appendix A for detailed program accounts under these general budgetary categories and for accounts not included

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a/ Estimated amounts for children, youth and families as distinct from services to the elderly
b/ Estimated expenditures for maternal and child health within the Medicaid program. Trust fund would be limited to state share of Medicaid funding
NOTE These programs serve children and youth, but separate financial data are not yet available. AFDC and Food Stamp programs are excluded from Trust funding

FINANCING CHILDREN'S SERVICES:

A PROPOSAL TO CREATE A CHILDREN'S TRUST

A. Background

Social, educational and health services for children and their families are authorized by a wide variety of federal laws. General revenues are used to support these programs. Specific amounts are appropriated annually by Congress for each program. There are some programs such as AFDC, Medicaid and Food Stamps, called entitlement programs, which are funded in whatever amounts are necessary to serve eligible people. These entitlement programs, except for selected Medicaid services, are generally not covered by this proposal.

B. The Funding Gap

There is widespread agreement that substantial increases in services and new types of services as well as improvements in quality of services to children and families are needed. I will not detail that need in this paper, both because it is amply documented elsewhere, and because I want to keep the focus on the issue of how shall we finance those essential services.

Many existing services are at a point of crisis because of inadequate funding in trying to serve all those in need. Others have seen quality deteriorate as funding has failed to keep up with costs. In addition, Congress is currently examining the need for other programs, most particularly child care.

But the common dilemma is the severe limitations on new spending stemming from the federal budget deficit. As a result, even though Congress may continue to authorize new programs and expand program requirements, the ensuing funding is likely to be wholly inadequate to the need.

Advocates for children and families have now been grasping at straws for several years. Demonstration programs, elimination of unnecessary programs, improved efficiency, setting priorities , private sector fund raising, and business financed services are offered as palliatives. However, in my judgement, none of these approaches, individually or collectively, is likely to meet other than a minuscule fraction of the real need. **I believe there is no question that unless additional public funding is made available, our children will be at increasing risk.**

C. The Proposal For A Children's Trust

I propose the creation of a Children's Trust financed by employee and employer contributions. This approach, in my view, has the most realistic potential to generate the financial resources essential to a meaningful improvement in services to families and children.

The proposal essentially creates a much enlarged pool of revenues from which Congress can appropriate funds to improve program quality, expand services and add new services. There would be no change in existing laws and/or regulations which apply to programs funded through the Children's Trust.

Thus, the same rules on targeting of funds, eligibility for services, eligible grantees, program requirements, reporting, evaluation, accountability, public participation, program administration and other matters would remain in effect for all programs. Similarly, committee jurisdiction over substantive legislation would not be changed. It is possible that Congress might consider new sub-committee arrangements for handling appropriations so that overall spending against the Children's Trust can be monitored.

The principle of using employer and employee contributions and a trust fund for specific programs *(e.g., retirement and disability insurance)* is well accepted in the Social Security Act. For that reason, we believe it could also be applied to children's programs.

I am concerned that the employer/employee tax is regressive, but there are ways, as described below, to reduce the regressiveness, particularly by increasing the base of taxable earnings.

D. Reasons For This Particular Approach

I have examined a number of approaches to improving revenues for child and family programs. In doing so, I sought a method which would assure, insofar as possible, that:

(1) The additional revenues would, in fact, be used for child, youth and family programs. The Children's Trust limits the use of additional revenues to its enumerated programs *(See Schematic B)*.

(2) The new revenues would not significantly increase the regressivity of the tax system, nor impose an unreasonable financial burden on lower income taxpayers. The proposal suggests methods for achieving these objectives. *(See Secton I and Table D)*.

(3) The expenditures for child and family programs would *not* add to federal deficits. The Trust uses revenues which have been raised specifically for child, youth, and family programs, and does not increase the deficit.

(4) The new revenues would equal at least $5 billion in the first year and grow to $20 billion over five years. These levels are judged to be essential to meet documented needs. At the same time, they are within the limits of program growth which can be administratively managed.

(5) After the first five years, there should be the possibility of further growth as the need for services grows. There is continuing growth in the wage base which would make program growth possible as well as providing an edge against inflation.

(6) The revenues could be collected without significant additional expense. The collection mechanism for social security could be used with virtually no additional cost.

An overriding consideration in future funding is to assure that the revenues generated will be earmarked for child, youth and family services and not diverted to other functions. I recognize that earmarking violates the principles of sound public finance. However, I believe it to be justified in this case both because (a) the need for this type of program is so critical and (b) public support for these types of programs may make an earmarked tax acceptable whereas it would not be acceptable to raise general revenues. Similarly a pay as you go approach in which revenues are raised specifically for the new and improved services means there will be no impact on federal deficits.

E. Specifications for a Children's Trust

(1) A Children's Trust should be created, perhaps as Title XXI of the Social Security Act, to receive employer/employee contributions. Part A of the Trust should be used to finance child, youth and family services under Titles IV-B, IV-D, IV-E, V, XIX and XX of the Social Security Act. Part B of the Trust should be used to finance other services to children, youth and families which are not a part of the Social Security Act *(e.g., Head Start, developmental disabilities, family violence, and alcohol, drug and mental health services)*. In all, 67 or more programs would be eligible for funding *(see Appendix A)*.

(2) I propose to finance the Children's Trust through an employer/employee tax. This trust fund and method of taxation, while similar to the Old Age and Survivors Insurance Trust Fund *(OASI)*, is entirely separate from it. Funds could not be transferred between The Children's Trust and OASI Trusts. Separate tax rates would be imposed for each trust. However, the mechanisms for collecting taxes would be identical, thereby avoiding any extra expenses of collection. Employee and employer contributions could produce funds for the Children's Trust through a variety of methods *(see Appendix B for a more complete discussion)* such as:

(A) Increasing the Tax Rate

Year	Taxable Payroll	Employer Rate	Employee Rate	Estimated* Revenues
1990	$2.5 trillion	.1%	.1%	$ 5.0 billion
1991	$2.7 trillion	.1%	.1%	$ 5.4 billion
1992	$2.9 trillion	.2%	.2%	$11.6 billion
1993	$3.1 trillion	.3%	.3%	$18.6 billion
1994	$3.3 trillion	.3%	.3%	$19.6 billion

A variation of increasing the tax rate would also eliminate the cap on the taxable wage base and impose a .6% rate on higher level incomes. This would add about $12 billion income over five years *(see Appendix B)*.

**Estimate includes growth in tax base as well as higher rates and is derived from the President's FY 1989 budget and the preliminary 1988 Annual Report of the Board of Trustees of the Federal Old Age Survivors Insurance and Disability Insurance Trust Funds.*

(B) Increasing the Taxable Wage Base

Present law limits the OASI taxable wage base to $45,300 *(1988 figure)* for an individual. That level will increase in proportion to the growth in average wages and is estimated to reach $55,200 by 1992. It has been suggested that the limit be removed thereby increasing the yield significantly and somewhat reducing the regressive nature of the tax. Recent calculations by the Office of the Actuary at the Social Security Administration estimate increases ranging from $31.5 billion in 1990 to $40.5 billion in 1994, if the cap on taxable wages and earnings is totally removed. With a $75,000 "cap", I estimate a range of $25.2 billion to $32.1 billion

Total Increase (billions)

Year	No "cap"	$75,000 "cap"
1990	$31.5	$25.2
1991	$33.8	$27.0
1992	$36.1	$28.9
1993	$38.1	$30.5
1994	$40.5	$32.1

An expanded "cap" produces more funding than could be effectively used by children's programs in the first five years. Therefore one might consider (a) a cap at some other level *(e.g. $75,000)* (b) exemption of some income (*e.g. $1,000*) from taxation in order to decrease regressivity; or (c) financing other services (*e.g. higher education and long term care for the elderly).*

In summary it is very possible that sufficient income could be generated for the Children's Trust without the need for tax increases affecting lower income families.

The choice among these approaches is more thoroughly discussed in Appendix B. Suffice it to say, that the fundamental objective is to raise a sufficient amount of money through the employer/employee tax to finance additional essential services needed by children, youth and families.

(3) There is a concern that the Trust might be used to replace existing levels of appropriation. Therefore, Congress should mandate itself to appropriate each year to the Children's Trust an amount from general revenues which is not less than the aggregate funds appropriated for the Social Security Act service programs in the latest fiscal year. For FY 89, this mandated appropriation would be about $8.5 billion. While Congress cannot constitutionally bind future Congresses to specific levels of appropriations, a law setting forth this intent will create a promise which child advocates can effectively use in the appropriation process.

Additionally, the law might provide that Trust funds are not available for appropriation unless Congress has made the mandated appropriations. This provides child advocates with even stronger arguments.

(4) Congress should mandate itself to appropriate from general revenues each year such sums for the programs specified in Part B as will equal or exceed the aggregate level of appropriations for such programs in the latest fiscal year. For FY 89, this mandated appropriation would be approximately $20.3 billion. Optional increases from general revenues should also be authorized.

(5) Each state should be required to provide a level of funding for Parts A and B programs which, in the aggregate, equals or exceeds the aggregate appropriations for such programs in FY 1989.

(6) Each year Congress should appropriate funds from the Trust to Parts A and B programs. Appropriations for Part A programs should take into account the estimated demand for funds by the states, estimated contributions to the fund and unused balances from prior years, provided that appropriations for a particular year should not be greater than what can also be financed in future years. Similarly, the needs of Part A programs would have to be compared to the needs of Part B programs. In effect, Congress would have to consider a comprehensive analysis of children, youth and family needs. Perhaps the President should be required to submit a special analysis appendix to the budget as is done in other areas.

(7) New Part A Trust funds should be allocated among the states; one third according to the number of children in the state; one third based on the number of persons in poverty; and one third taking into account per capita income in the state. *(See Table A for percentage allocations.)* That portion of the Trust related to mandated Part A appropriations would follow the existing distribution pattern.

(8) States should be required to develop a comprehensive plan for Part A child, youth and family services. This plan would also incorporate anticipated funding of Part B programs. Federal standards would be required including provisions for reporting, accountability, public participation and non-discrimination.

Local (*i.e. county and city)* governments and neighborhood organizations should play meaningful roles in developing such plans. Similarly, the private non-profit sector needs to be involved.

Within the parameters of their approved plan Governors and legislators would be given discretion within the state's share of total Part A funds to (a) allocate such funds among Social Security Act programs serving children and families as well as (b) to allocate funds to other (*i.e., Part B)* federal programs serving children, youth or families. Congress would specify to which other federal programs (*e.g. Head Start or youth programs or community* mental health) allocations could be made. (*See Schematic B and Appendix A for a listing of such programs.*) Congress would also specify the required matching funds in those cases.

Table A

Proposed Allocations of Children's Trust Funds

For Part A Programs

	Statistics						*Percent Distribution*		
	Population under 18 (000's)	Persons Under Poverty Level (000's)	Per Capita Income	Population Under 18	Persons Under Poverty Level	Average	Ratio of National to State Per Capita Income	Product of Ratio & Average	Percent Distribution
U.S.	63,012	27,392	13,876	100.001	99.999	100.000	1.000	103.590	100.000
New England									
Maine	304	141	11,887	0.482	0.515	0.499	1.167	0.582	0.562
New Hampshire	253	75	14,964	0.402	0.274	0.338	0.927	0.313	0.302
Vermont	140	50	12,117	0.222	0.215	0.219	1.145	0.25	0.242
Massachusetts	1,364	532	16,380	2.165	1.942	2.054	0.847	1.740	1.680
Rhode Island	225	94	13,906	0.357	0.343	0.350	0.998	0.349	0.337
Connecticut	756	243	18,089	1.200	0.887	1.044	0.767	0.801	0.773
Middle Atlantic									
New York	4,368	2,299	16,050	6.932	8.393	7.663	0.865	6.628	6.399
New Jersey	1,862	6891	7,211	2.955	2.515	2.735	0.806	2.204	2.128
Pennsylvania	2,877	1,2101	3,437	4.566	4.417	4.492	1.033	4.640	4.479
East North Central									
Ohio	2,873	1,089	13,226	4.559	3.976	4.268	1.049	4.477	4.322
Indiana	1,506	516	12,446	2.390	1.884	2.137	1.115	2.383	2.300
Illinois	3,096	1,231	14,738	4.913	4.494	4.704	0.942	4.431	4.277
Michigan	2,483	9461	3,608	3.941	3.454	3.698	1.020	3.772	3.641
Wisconsin	1,284	3981	3,154	2.038	1.453	1.746	1.055	1.842	1.778
West North Central									
Minnesota	1,139	374	14087	1.808	1.369	1.509	0.985	1.565	1.511
Iowa	773	286	12,594	1.277	1.044	1.136	1.102	1.252	1.209
Missouri	1,327	582	13,244	2.106	2.125	2.116	1.048	2.218	2.141
North Dakota	197	79	12,052	0.313	0.288	0.301	1.151	0.346	0.334
South Dakota	206	113	11,161	0.327	0.413	0.370	1.243	0.460	0.444
Nebraska	448	163	13,281	0.711	0.595	0.653	1.045	0.682	0.658
Kansas	665	232	13,775	1.055	0.847	0.951	1.007	0.958	0.925

Table A (cont)

	Population Under 18 (000's)	Persons Under Poverty Level (000's)	Per Capita Income	Population Under 18	Persons Under Poverty Level	Average	Ratio of National to State Per Capita Income	Product of Ratio & Average	Percent Distribution
South Atlantic									
Delaware	157	681	4,272	0.249	0.248	0.249	0.972	0.242	0.234
Maryland	1,097	4051	5,864	1.741	1.479	1.610	0.875	1.409	1.360
District of Columbia	132	113	18,168	0.209	0.413	0.311	0.764	0.238	0.230
Virginia	1,444	611	14,542	2.292	2.231	2.262	0.954	2.158	2.083
West Virginia	516	287	10,193	0.819	1.048	0.934	1.361	1.271	1.227
North Carolina	1,589	840	11,617	2.522	3.067	2.795	1.194	3.337	3.221
South Carolina	922	500	10,586	1.463	1.825	1.644	1.311	2.155	2.080
Georgia	1,658	884	12,543	2.631	3.227	2.929	1.106	3.239	3.127
Florida	2,536	1,287	13,742	4.025	4.698	4.362	1.010	4.406	4.254
East South Central									
Kentucky	1,023	626	10,824	1.624	2.285	1.955	1.282	2.506	2.419
Tennessee	1,231	736	11,243	1.954	2.687	2.321	1.234	2.864	2.765
Alabama	1,117	720	10,673	1.773	2.629	2.201	1.300	2.861	2.762
Mississippi	789	587	9,187	1.252	2.143	1.698	1.510	2.564	2.475
West South Central									
Arkansas	646	424	10,476	1.025	1.548	1.287	1.325	1.705	1.646
Louisiana	1,357	765	11,274	2.154	2.793	2.474	1.231	3.045	2.939
Oklahoma	924	394	12,232	1.466	1.438	1.452	1.134	1.647	1.590
Texas	4,798	2,036	13,483	7.614	7.433	7.524	1.029	7.742	7.475
Mountain									
Montana	234	94	10,974	0.371	0.343	0.357	1.264	0.451	0.435
Idaho	324	117	11,120	0.514	0.427	0.471	1.248	0.588	0.568
Wyoming	160	36	13,223	0.254	0.131	0.193	1.049	0.202	0.195
Colorado	864	285	14,812	1.371	1.040	1.206	0.937	1.130	1.091
New Mexico	448	226	10,914	0.711	0.825	0.768	1.271	0.976	0.942
Arizona	875	351	12,795	1.389	1.281	1.335	1.084	1.447	1.397
Nevada	220	69	14,488	0.349	0.252	0.301	0.958	0.288	0.278
Pacific									
Washington	1,180	396	13,876	1.873	1.446	1.660	1.000	1.660	1.602
Oregon	711	274	12,622	1.128	1.000	1.064	1.099	1.169	1.128
California	6,840	2,627	16,065	10.855	0.590	10.223	0.864	8.833	8.527
Alaska	170	42	18,187	0.270	0.153	0.212	0.763	0.162	0.156
Hawaii	290	92	13,814	0.460	0.336	0.398	1.004	0.400	0.386

(9) Medicaid is a federal entitlement program which provides whatever level of funds are required to match state expenditures. Within Medicaid, special eligibility requirements allow higher income families to receive maternal health services and child health services up to age 8 (*for families with incomes up to 185 percent of the poverty level*) with full federal matching. The states should be able to use Part A Children's Trust funds as matching funds for these selected Medicaid programs and still attract full federal reimbursement, provided the state provides its full level of funding from prior years.

(10) Title XX funds are available for services to both elderly populations and children, youth and families. The additional funds provided through the Children's Trust should be used only for children, youth and families and a state would be required to maintain its prior level of expenditures for such purposes.

(11) For programs under Part A, required federal matching rates should be set at 65 to 75 percent of state expenditures; the exact figure being determined on the basis of relative per capita income. (*See Table B for the matching rates*). A maintenance of effort requirement would assure that states did not spend less than current levels. Matching requirements for Part B programs would follow existing law.

(12) Funds not needed in a particular year should revert to the trust fund for future appropriation.

(13) Any Social Security Act limitations on allocations of Part A funds among service programs should be repealed in favor of allowing state discretion in setting priorities.

(14) The service titles of the Social Security Act should be revised to assure they permit a comprehensive range of child, youth and family services.

(15) A procedure should be prescribed through which states could authorize federal agencies to use portions of the state's Part A allocation to fund programs authorized under Part B.

(16) In order to enhance sound planning and budgeting at the state level, Congress should use the advance funding techniques now used in Chapter I education programs; i.e. the appropriation would specify levels for the budget year and the subsequent year. (*Such advance appropriations are authorized by the Congressional Budget Act of 1974 (31 U.S.C. 1105 (17)*)

Table B

R

Ratio of National to State per Capita Income

	Ratio	Federal share
New England		
Maine	1.167	72%
New Hampshire	0.927	67%
Vermont	1.145	72%
Massachusetts	0.847	66%
Rhode Island	0.998	68%
Connecticut	0.767	65%
Middle Atlantic		
New York	0.865	66%
New Jersey	0.806	66%
Pennsylvania	1.033	70%
East North Central		
Ohio	1.049	70%
Indiana	1.115	72%
Illinois	0.942	67%
Michigan	1.020	69%
Wisconsin	1.055	71%
West North Central		
Minnesota	0.985	68%
Iowa	1.102	72%
Missouri	1.048	70%
North Dakota	1.151	72%
South Dakota	1.243	73%
Nebraska	1.045	70%
Kansas	1.007	69%
South Atlantic		
Delaware	0.972	68%
Maryland	0.875	66%
District of Columbia	0.764	65%
Virginia	0.954	68%
West Virginia	1.361	75%
North Carolina	1.194	72%
South Carolina	1.311	75%
Georgia	1.106	72%
Florida	1.010	69%
East South Central		
Kentucky	1.282	74%
Tennessee	1.234	73%
Alabama	1.300	75%
Mississippi	1.510	75%
West South Central		
Arkansas	1.325	75%
Louisiana	1.231	73%
Oklahoma	1.134	72%
Texa	1.029	70%

	Ratio	Federal share
Mountain		
Montana	1.264	74%
Idaho	1.248	73%
Wyoming	1.049	70%
Colorado	0.937	67%
New Mexico	1.271	74%
Arizona	1.084	71%
Utah	1.322	75%
Nevada	0.958	68%
Pacific		
Washington	1.000	69%
Oregon	1.099	71%
California	0.864	66%
Alaska	0.763	65%
Hawaii	1.004	68%

Computation Formula Table B

Ratio	Federal Share
Less - 0.800	65%
0.800 - 0.899	66%
0.900 - 0.949	67%
0.950 - 0.999	68%
1.000 - 1.024	69%
1.025 - 1.049	70%
1.050 - 1.099	71%
1.100 - 1.199	72%
1.200 - 1.249	73%
1.250 - 1.299	74%
1.300 plus	75%

(17) Specification of Eligible Services under Part A

The following types of services authorized under the Social Security Act should be eligible for financing through Part A of the Children's Trust:

	1989 Funding Level (Millions of Dollars)
1. Title IV-B - Child Welfare Services	$239
2. Title IV-D - Child Support and Establishment of Paternity	$368
3. Title IV-E - Foster Care and Adoption Assistance	$1,075
4. Title V - Maternal and Child Health Service Block Grant	561
5. Selected Medicaid Services to Parents and Children*	(Est.) 4,661
6. Title XX - Block Grants to State for Social Services**	(Est.) 1,611
TOTAL	$8,515

**This category is intended to cover that part of the Medicaid appropriation which applies under SOBRA to maternal care and pediatric care under eight years of age. The amount shown is an estimate.*

***Portions of Title XX funding are also used for senior citizen services. The figure shown is an estimate of the portion used for children, youth and family services*

(18) Specification of Eligible Services under Part B

In addition, Congress would designate other federal programs as Part B programs which could receive supplemental funding, either through appropriations from the Trust *or* by state action to allocate portions of their Part A funds. A proposed list of current programs is displayed in Schematic B and elaborated in Appendix A.

Several federal programs *(e.g., mental health, community health, and substance abuse)* serve people of all ages. If Congress wishes to use the Children's Trust for these programs, it can do so by simply appropriating funds to the specific Part B programs and earmarking them for services for children, youth and families.

It is very likely that Congress will want to create new programs *(e.g., the Act for Better Child Care)* and fund them through the Trust. All it has to do is authorize funding from the Trust in the new legislation.

F. Allocation of New Funds In the First Five Years

Table C shows the amount of new funds that would be distributed to states based on the five levels of tax rates proposed earlier and the allocation formula shown in Table A. *These figures assume that the Children's Trust would be used exclusively for Part A programs, which will certainly not be the case. To the extent that funds are used for Part B programs the state by state distribution will change.* Table C should therefore be read as an approximation of new funds which could become available.

These funds should be *in addition* to amounts presently allocated to each state *and* to the state's matching contributions.

G. Rationale for Using A Trust Fund

Many of the circumstances which justified the enactment of other Social Security Act Trust Fund programs (*particularly OASI*) are also applicable to services to children, youth and families. The chart below entitled "**The Symmetry of OASI and Children's Trust Funds**" enumerates these similarities.

THE SYMMETRY OF THE

AND THE

OASI TRUST FUND	**CHILDREN'S TRUST**
1. The OASI Trust Fund was designed to protect a very vulnerable population; i.e. the elderly.	1. The children's Trust Fund (CT) is designed to protect a very vulnerable population, i.e., children.
2. OASI helps business by providing a foundation for their pension systems and encouraging older people to retire.	2. CT helps business by increasing the proportions of well functioning children who can become productive adults. It also helps finance child care which enables more people to participate in the labor market.
3. The use of a trust fund increased public confidence that revenues will be used exclusively for purposes which the public approves. It also permits storing funds which are currently not needed in order to meet future needs.	3 . The use of a trust fund can increase public confidence that revenues will be used exclusively for purposes which the public approves. It also permits storing funds which are currently not needed in order to meet future needs.
4. The broadness of the wages and earnings tax base permits raising a great deal of money with a relatively low tax rate.4.The broadness of the wages and earnings tax base permits raising a great deal of money with a relatively low tax rate.	4. The broadness of the wages and earnings tax base permits raising a great deal of money with a relatively low tax rate.
5. The costs of administration are very low.	5. The costs of administration are even lower.

From a public policy point of view, the use of a trust fund financed from a specific tax is responsive to the public's willingness to support taxes, provided they are clearly committed to meeting the needs of children, youth and families.

TABLE C

New Funds at Various Tax Levels

(Millions of Dollars)

(NOTE: The figures below assume all funds are used for Part A program, an unlikely event. To the extent that funds are used for Part B programs the distribution among states will change)

Employer and Employee	Percent of Total	New Funds 1990 0.2%	1991 0.2%	1992 0.4%	1993 0.6%	1994 0.6%
Est. Receipts	100.000	$5,000.0	$5,400.0	$11,600.0	$18,600.0	$19,600.0
New England						
Maine	0.562	28.0	30.3	65.2	104.5	110.2
New Hampshire	0.302	15.0	16.3	35.0	56.2	59.2
Vermont	0.242	12.1	13.1	28.1	45.0	47.0
Massachusetts	1.680	84.0	90.7	194.9	312.5	329.3
Rhode Island	0.337	16.8	18.2	39.7	62.7	66.1
Connecticut	0.773	38.6	41.7	89.7	143.8	151.5
Middle Atlantic						
New York	6.399	319.9	345.6	742.4	1,190.3	1,254.1
New Jersey	2.128	106.4	114.9	246.8	395.8	417.1
Pennsylvania	4.479	223.9	241.9	519.6	833.1	877.8
East North Central						
Ohio	4.322	216.1	233.4	501.4	803.9	847.1
Indiana	2.300	115.0	124.2	266.8	427.8	450.8
Illinois	4.277	213.8	231.0	496.1	795.5	838.3
Michigan	3.641	182.0	196.6	422.4	677.2	713.6
Wisconsin	1.778	88.9	96.0	206.2	330.7	348.5
West North Central						
Minnesota	1.511	75.6	81.6	175.3	281.0	296.2
Iowa	1.209	60.4	65.3	140.2	224.9	237.0
Missouri	2.141	107.0	115.6	248.4	398.2	419.6
North Dakota	0.334	16.7	18.0	38.7	62.1	65.5
South Dakota	0.444	22.2	24.0	51.5	82.6	87.0
Nebraska	0.658	32.9	35.5	76.3	122.4	129.0
Kansas	0.925	46.2	50.0	107.3	172.1	181.3

Employer and Employee -	Percent of Total	1990 0.2%	1991 0.2%	1992 0.4%	1993 0.6%	1994 0.6%
South Atlantic						
Delaware	0.234	11.7	12.6	27.1	43.5	45.9
Maryland	1.360	68.0	73.4	157.8	253.0	266.6
DC	0.230	11.5	12.4	26.7	42.8	45.1
Virginia	2.083	104.2	112.5	241.6	387.4	408.3
West Virginia	1.227	61.4	66.3	142.3	228.2	240.5
North Carolina	3.221	61.0	173.9	373.6	599.1	631.3
South Carolina	2.080	104.0	112.3	241.3	386.9	407.7
Georgia	3.127	156.4	168.9	362.7	581.6	612.9
Florida	4.254	212.7	229.7	493.5	791.2	833.8
East South Central						
Kentucky	2.419	121.0	130.6	280.6	449.9	474.1
Tennessee	2.765	138.2	149.3	320.7	514.3	541.9
Alabama	2.762	138.1	149.1	320.4	513.7	541.4
Mississippi	2.475	123.8	133.7	287.1	460.4	485.1
West South Central						
Arkansas	1.646	82.3	88.9	190.9	306.2	322.6
Louisiana	2.939	147.0	158.7	340.0	546.7	576.0
Oklahoma	1.590	79.5	85.9	184.4	295.7	311.6
Texas	7.475	373.8	403.7	867.1	1,390.4	1,465.1
Mountain						
Montana	0.435	21.8	23.5	50.5	80.9	85.3
Idaho	0.568	28.4	30.7	65.9	105.6	111.3
Wyoming	0.196	9.8	10.5	22.6	36.3	38.2
Colorado	1.091	54.6	58.9	126.6	202.9	213.8
New Mexico	0.942	47.1	50.9	109.3	175.2	184.6
Arizona	1.397	69.8	75.4	162.1	259.8	273.8
Utah	0.966	48.3	52.2	112.1	179.7	189.3
Nevada	0.278	13.9	15.0	32.2	51.7	54.5
Pacific						
Washington	1.602	80.1	86.5	185.8	298.0	314.0
Oregon	1.128	56.4	60.9	130.8	209.8	221.1
California	8.527	426.4	460.5	989.1	1,586.0	1,671.3
Alaska	0.156	7.8	8.4	18.1	29.0	30.6
Hawaii	0.386	19.3	20.8	44.8	71.8	75.7

H. Relationship to Other Social Security Trust Funds

The proposed Children's Trust would be legally and fiscally independent of the other social security act trust funds (*OASI, DI, HI, and SMI*). Borrowing between these funds and the Children's Trust would not be permitted and shortfalls or surpluses in one fund could not be compensated for by moving dollars among the funds. Essentially, the Children's Trust stands on its own, with its own tax rate(s) and its own purposes of expenditure.

On the other hand, the Children's Trust would benefit from use of the other trust funds' system for collecting taxes. It would use the same rules for defining wages and earnings and the same procedures for collection and enforcement of taxes. The administrative burden on employers would not be great, simply requiring one additional calculation under the same rules present calculations are made.

In Appendix B alternatives are suggested which would remove the "cap" on taxable wages and earnings and perhaps apply a higher rate to earnings above the present "cap." This would not significantly impact the administrative requirements for business.

The Children's Trust might be viewed by some as competitive with other social security trust funds in that it uses the same tax base: i.e., wages and earnings. **However, that competition may be more apparent than real.** The Senate Budget and Finance Committees have recently reviewed the status of the Social Security Trust funds and found them in good shape.

Social Security Commissioner, Dorcas Hardy, testified May 13, 1988 on the financial status of Social Security before the Senate Finance Committee. As she put it:

> *"The 1988 report of the Social Security Board of Trustees ...confirms the system's health...trust funds will reach $1.4 trillion by 2000 and nearly $12 trillion by the year 2030...*
>
> *Thus, if these assumptions prove to be accurate, there will be sufficient funds to pay all benefits due to current beneficiaries and to develop a substantial reserve for payment of benefits to the Baby Boom generation...over the complete 75 year period, the period Trustees use to evaluate long term financing of Social Security, the fund is in close actuarial balance."*

Thus, there seems to be no real competition between the needs of the OASI Trust Fund and a Children's Trust.

There are, of course, other potential competitors such as the Disability Trust Fund (*DI*), the Hospital Insurance (*HI*), and supplementary Medical Insurance (*SMI*), Trust Funds. The largest of these is the Hospital Insurance Trust Fund. William Roper, M.D., Administrator of the Health Care Financing Administration, testified that:

> *"...the Board of Trustees projects that the HI Trust Fund will be solvent until at least the year 2005 and perhaps until 2008...the Board cautions that,...*any significant adverse *deviation from these projections could result in the inability of the fund to meet its obligations much sooner than projected."*

In other words, there will be problems, but they may not become pressing for another fifteen years. Long term care for the elderly is also being considered for trust funding. If enacted, it would probably add to the HI rate.

I. Tax Impacts on Families

Concern has been expressed that a tax on wages and earnings is regressive because it (a) uses a uniform rate at all levels of income and (b) has a ceiling or cap, currently $45,300, on taxable wages and earnings. If one looks only at the tax itself the concern about regressivity is clearly justified.

However, there is another way to look at the issue, by considering not only the tax the family pays, but what it is likely to receive as benefits. Table D presents such an analysis. The calculation of contributions (*taxes*) assumes a rate of .3 percent each for employer and employee. For the family with $10,000 in wages and earnings the contribution is $30 per year. Assuming removal of the "cap" on taxable wages and earnings, the $75,000 income will require contributions of $450 or fifteen times as much.

On the benefit side, the analysis assumes that each family receives (*in a ten year period)* three major types of services: (a) five years of daycare; (b) maternal and child health services for the birth of one child; and (c) $2,500 of drug, alcohol and mental health services. However the government's share of costs ranges from zero for certain services to the highest income families to 100 percent for certain services to the lowest income families.

Comparing the costs to the family with the benefits it receives creates a clearly progressive situation. The lowest income family receives $12,700 in services above its contributions, a gain of 12.7 percent in income. The highest income family pays $1,750 more in contributions than it receives in benefits, a negligible loss of .2% of its income. A major effect on the gains and losses at each level of family income is created by the employer's share of contributions.

In summary, lower income families enjoy substantially greater absolute gains as well as larger proportionate gains (*measured against income*) than do higher income families.

Annual Income	Ten Year Benefits Over Taxes	Benefit Gain as a Percent of Ten Year Income
$10,000	$12,700	12.7 %
20,000	5,650	2.8 %
45,000	400	0.0 %
75,000	(1,750)	(0.2 %)

Thus, what appears as a regressive tax, has, when benefits are taken into account, a very progressive impact.

J. Impacts on Business

The proposal for a Children's Trust would create an additional cost for both large and small businesses. They would pay one half of whatever additional costs are involved. At the highest level proposed, the cost to business would be three tenths of a percent (*.3%)* of payroll. This translates to a total of $9.8 billion on an estimated $3.3 trillion wages and earnings base for 1994.

Table D

THE REGRESSIVE/PROGRESSIVE NATURE

OF AN EMPLOYER/EMPLOYEE TAX

	Family A	Family B	Family C	Family D*
	$10,000	$20,000	$45,000	$75,000
A-1. Children's Trust Contribution per year by Family	$30	$60	$135	$225
A-2. Children's Trust Contribution per year by Employer	$30	$60	$135	$225
B. Ten Year Contributions by Employees and Employers	$600	$1,200	$2,700	$4,500
C. Examples of Potential Benefits:				
1. Birth of a child	$3,000 (100% cost)	$2,500 ($500 copay)	$0 (no benefit)	$0 (no benefit)
2. Five years of day care, partially subsidized on a sliding scale	$7,500 (50% subsidy)	$3,500 (25% subsidy)	$750 (5% subsidy)	$0 (no benefit)
3. Alcohol, drug, and mental health services at $2,500 level	$2,500 (100% subsidy)	$2,000 (80% subsidy)	$1,000 (40% subsidy)	$500 (20% subsidy)
4. SUBTOTAL BENEFITS	$13,000	$6,250	$1,750	$500
D. Net Gain (cost) to Family {Line C-4 minus Line B}	$12,700	$5,650	$400	$(1,750)
E. Income gain (loss) to a Family as Proportion of Ten Year Income	12.7% of income *gain*	2.8% of income *gain*	0% of income *gain*	.2% of income *loss*

Family "D" contributions assume removal of cap on taxable wages and benefits so that entire $75,000 is taxed.

In comparison to other methods of funding, a wages and earnings tax has the advantages of being uniform in its application. Competitive businesses in the United States with similar methods of operation will feel the impact in the same way. It is true that the additional costs may create a very slight competitive disadvantage with respect to companies in other countries. However, as described below, this may be more than offset by business cost savings, labor force gains and productivity improvements which result from the programs financed under the Children's Trust.

From an employer point of view, the increased availability of funds for child care makes possible increased productivity by the labor force without putting pressure on business to fund such programs. Furthermore, the application of additional funds to child and family services reduces the prospect that large portions of the work force coming of age will not be able to function well. Educational, early childhood, health and social services all make for a more productive work force. Absent additional services in these areas, there is real danger that the United States will not have an adequate work force in quantitativve or qualitative terms.

Finally, there is an important cost avoidance factor which affects both business and taxpayers. We are well on our way to producing a generation of young people with large proportions of educationally deficient, alcohol or drug addicted, emotionally troubled and physically ill individuals along with an increasing proportion of dysfunctional families. That generation promises sharp increases in public expenditures for welfare costs, expenses related to crime and corrections and preventable medical expenses. Those costs can be avoided because we know how to work with children and families so that they do not become dependent on government.

K. Conclusion

A Children's Trust supported by employer and employee contributions is a very effective way to raise funds. This approach will provide dollars in the magnitudes necessary to realistically address the needs of children and families.

This proposal merits earnest considerations by individuals and organizations interested in and reducing the numbers of at risk children, youth and families in America.

Readers who have comments are invited to call the author at (206) 753-3395 or write to

Jule Sugarman, Secretary

Department of Social and Health Services

Mailstop: OB-44

Olympia, Washington 98504-0095

APPENDIX A

Program Codes and Budget Authority 1989

PART A
(Social Security Act Service Programs)

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 40	OUTLAYS 90
Title IV-B	75-1636-0-1-506			
	00.09	Child Welfare	239,350	239,350
Title IV-D	75-1501-0-1-609			
	01.03	Child Support Administrative Costs	360,000	160,000
Title IV-E	75-1645-0-1-506			
	00.01	Foster Care	940,971	940,971
	00.04	Adoption Assistance	133,936	133,936
	00.06	Child Welfare Services	-0-	-0-
	00.07	Child Welfare Training	-0-	-0-
	00.08	Adoption Opportunities	-0-	-0-
	00.09	Child Research and Demonstration	-0-	-0-
Title V	75-0350-0-1-550			
	00.20	Maternal & Child Health Block Grant	561,000	561,000
Title XIX	75-0512-0-1-551			
	00.01	Medicaid Vendor Payments	4,661,000	4,661,000
Title XX	75-1634-0-1-506			
	00.01	Social Service Block Grants	1,610,820	1,610,820

PART B
(Non-Social Security Act Service Programs)

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 40	OUTLAYS 90
Human Services				
Human Development Services	75-1636-0-1-506			
	00.01	Head Start	1,206,324	1,206,324
	00.02	Child Development Associate Scholarships	1,436	1,436
	00.03	Runaway & Homeless Youth	26,089	26,089
	00.04	Child Abuse State Grants	11,489	11,489
	00.05	Child Abuse Discretionary Activities	-0-	-0-
	00.06	Child Abuse Challenge Grants	4,787	4,787
	00.07	Dependent Care Planning and Development Grants	8,377	8,377
	00.14	Family Violence Grants	8,138	8,138
	00.31	DD State Grants & Advocacy	77,549	77,549
Health Services				
Health Resources & Services	75-0350-0-1-550			
	00.07	Infant Mortality	20,000	20,000
Disease Control, Research & Training	75-0943-0-1-550			
	00.04	Immunization	101,500	101,500
Public Health Service Management	75-1101-0-1-550			
	00.03	Adolescent Family Life	9,645	9,645
	00.04	Family Planning	140,000	140,000

APPENDIX A (Continued)

Program Codes and Budget Authority 1989

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 40	OUTLAYS 90
Food Programs				
Food Program Administration	12-3508-0-1-605			
	00.01	Child Nutrition Administration	34,120	34,120
	00.02	Special Milk Administration	161	161
	00.03	Supplemental Feeding Programs	7,315	7,315
Special Milk Program	12-3502-0-1-605			
		Special Milk Program	19,925	22,015
Child Nutrition Program	12-3539-0-1-605			
	00.01	Upper Income School Lunch	308,376	308,376
	00.02	Lower Income School Lunch	294,374	294,374
	00.03	Low Income School Lunch	2,579,669	2,579,669
	00.04	Upper Income School Breakfast	10,599	10,599
	00.05	Lower Income School Breakfast	17,339	17,339
	00.06	Low Income School Breakfast	486,560	486,560
	00.07	Upper Income Child Care Feeding	237,053	237,053
	00.08	Lower Income Child Care Feeding	26,737	26,737
	00.09	Low Income Child Care Feeding	382,142	382,142
	00.10	Audits Child Care Feeding	-0-	-0-
	00.11	Summer Feeding	147,824	147,824
	00.12	State Administrative Expenses	58,411	58,411
	00.13	Commodity Procurement	176,514	176,514
	00.14	Nutrition Studies and Surveys	2,085	2,085
	00.15	Nutrition Education and Training	-0-	-0-
Supplemental Feeding Program	12-3510-0-1-605			
		Supplemental Feeding Program	1,923,848	1,921,931

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 40	OUTLAYS 90
Work Programs				
Training & Employment Services	16-0174-0-1-504			
	00.02	Summer Youth Employment Training Program	718,050	718,050
	00.12	Federal Job Corps	690,320	690,320
Education Programs				
Education for the Handicapped	91-0300-0-1-501			
	00.01	Grants to States	1,474,239	1,474,239
	00.02	Preschool Grants	205,075	205,075
	00.03	Grants for Infants and Families	68,358	68,358
	00.04	Deaf-Blind/Other Severely Handicapped Projects	19,722	19,722
	00.05	Early Childhood Education	23,428	23,428
Compensatory Education for the Disadvantaged	91-0900-0-1-501			
	00.01	Grants for Disadvantaged to Local Education Agencies	3,906,151	3,906,151
	00.02	Concentration Grants	154,000	154,000
	00.03	State Agency Programs	452,914	452,914
Higher Education				
Vocational and Adult Education	91-0400-0-1-501		881,095	895,174
Student Financial Assistance	91-0200-0-1-502		6,020,597	5,773,871
Guaranteed Student Loans	91-0230-0-1-502		2,740,358	2,743,460

APPENDIX A (Continued)

Program Codes and Budget Authority 1989

PROGRAM	PROGRAM AND FINANCING (ID) CODE	1989 BUDGET AUTHORITY 40	OUTLAYS 90
Higher Education	91-0201-0-1-502	450,195	486,596
Higher Education Facilities Loans	91-0240-0-1-502	-0-	7,783
College Housing Loans	91-4250-0-3-502	-0-	7,591
Higher Education Subtotal $9,211,150			
Education Research and Statistics	91-1100-0-1-503	81,000	70,057
Libraries	91-0104-0-1-503	-0-	101,190
Special Programs			
School Improvement Programs	91-1000-0-1-501	929,982	929,982
Indian Education	91-0101-0-1-501	67,653	54,710
Bilingual, Immigrant and Refugee Education	91-1300-0-1-501	185,295	22,235
Rehabilitative Services and Handicapped Research	91-0301-0-1-506	1,616,435	1,600,180
Special Institutions for the Handicapped	91-0600-0-1-500	101,875	101,470
Special Program Subtotal $2,901,260			

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 40	OUTLAYS 90
Other Programs				
Action Operating Expenses	44-0103-0-1-506 *			
	00.01	Volunteers in Service to America	23,270	23,270
	00.03	Foster Grandparents (Older American Volunteer Programs)	113,000	113,000
Justice Assistance	15-0401-0-1-754			
	00.05	Juvenile Justice	-0-	-0-
	00.06	Missing Children	4,000	4,000
National Institute of Child Health & Human Development	75-0844-0-1-550			
	00.01	Research for Mother's and Children	210,177	210,177

*NOTE: Both programs serve other than Children

APPENDIX A (Continued)

Program Codes and Budget Authority 1989

PART C

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 4/	OUTLAYS 5/
Service Not Included				
Tribal & Federal Health Services	75-0390-0-1-551			
	00.91	Tribal Health Program	265,134	265,134
	01.91	Federal Health Programs	739,188	739,188
Food Program Administration	12-3508-0-1-605			
	00.04	Food Stamps	51,351	51,351
Food Stamp Program	12-3505-0-1-605			
		Food Stamps	12,519,705	12.504,204
Family Support Payments to States	75-1501-0-1-609			
		AFDC	10,355,137	10,772,340
Health Resources and Services	75-0350-0-1-550			
	00.03	Community Health Centers	400,000	400,000
	00.05	Migrant Health	44,423	44,423
	00.17	Home Health	-0-	-0-
	00.21	Pediatric EMS	-0-	-0-

PROGRAM	PROGRAM AND FINANCING (ID) CODE		1989 BUDGET AUTHORITY 4/	[illegible]
Alcohol, Drug Abuse and Mental Health	75-1361-0-1-550			
	00.01	Grants to States	[illegible]	[illegible]
	01.91	Mental Health	171,122	171,122
	02.91	Drug Abuse	118,726	118,726
	03.91	Alcohol Abuse	99,610	99,610
Refugee and Entrance Assistance	75-1503-0-1-609		278,003	[illegible]

APPENDIX B

Employer/Employee Tax on Wages and Earnings

There are an infinite number of variations as to how one might apply an employer/employee tax on wages and earnings. Which method one chooses depends both on (a) the objectives one seeks to achieve and (b) a sense of the approach which might produce the highest level of public support.

One of the premises of this proposal is that a revenue increase was needed in the magnitude of $5 billion in 1990 rising to $20 billion in 1994. Using that premise as a constant, the paragraphs below outline strategies for reaching the goal.

Alternative A : Imposition of New Tax within Present Cap

This approach would begin with a .1 percent increase in 1990 and 1991; raise the rate to .2 percent in 1992 and to .3 percent in 1993 and 1994. All revenues would be used for purposes of the Children's Trust. Income levels would be:

Year	Rate	Trust Income
1990	.1%	$ 5.0 billion
1991	.1%	$ 5.4 billion
1992	.2%	$11.6 billion
1993	.3%	$18.6 billion
1994	.3%	$19.6 billion
Five Year TOTAL:		$60.2 billion

Alternative B: Application of Current OASI Tax to Income in Excess of Current Cap

This approach would apply the current OASI tax rate to all income in excess of the present cap *($45,300)*. The new income would not go into the OASI Trust fund and would not lead to additional benefits under those programs. Instead the money would go into the Children's Trust and leave a surplus for other purposes. The estimates are as follows:

	Year	Total Increase No Cap	Total Increase $75,000 Cap	Allocated To Children's Trust	Available For Other Purposes With No Cap
	1990	$31.5 billion	$25..2 billion	$ 6.3 billion	$ 25.2 billion
	1991	$33.8 billion	$27.0 billion	$10.1 billion	$ 23.7 billion
	1992	$36.1 billion	$28.9 billion	$14.4 billion	$ 21.7 billion
	1993	$38.1 billion	$30.5 billion	$19.0 billion	$ 19.1 billion
	1994	$40.2 billion	$32.1 billion	$20.1 billion	$ 20.1 billion
Five Year	TOTAL:	$179.7 billion	$143.7 billion	$69.9 billion	$109.8 billion

Other purposes for the funds might be (a) increased availability of loans and grants for higher education; (b) partial financing of long term care for the elderly; and, (c) exemption of a portion of income *(e.g. the first $1000)* from taxation in order to reduce the regressive nature of the tax.

Alternative C: Progressive Rate Approach

This approach would impose a progressive rate on wages and earnings over $45,000 along with removal of the cap and use the funds entirely for Children's Trust purposes. Variations of this approach with higher rates could be used if it were desired to produce more funds for other purposes.

	RATES		*INCOME IN $ BILLIONS*		
	Up to $45,000	Over $45,00	Up to $45,000	Over $45,000	TOTAL
1990	.1	.6	$ 5.0	$3.2	$ 8.2
1991	.1	.6	$ 5.4	$3.4	$ 8.8
1992	.2	.6	$11.6	$3.6	$15.2
1993	.2	.6	$12.4	$3.8	$16.2
1994	.3	.6	$19.6	$4.0	$23.6
	Five Year TOTAL:				$72.0

The rate on wages and earnings would be .6 percent each for employers and employees or double the fifth year rate on the first $45,000 of income. This approach permits delaying the rise to .3 percent for all wages and earnings up to $45,000 from 1993 to 1994 and raises almost $12 billion more money.

AMERICAN ASSOCIATION
OF SCHOOL ADMINISTRATORS

February 6, 1989

To: Budget Committee Members

From: Nick Penning
Legislative Specialist

Re: FY 90 Funding for Education

The American Association of School Administrators, representing more than 18,000 local superintendents and school executives, fully supports the Committee for Education Funding recommendation that the President and Congress commit to a long term strategy for investment in children, beginning with a $2.5 billion downpayment in new funds for existing federal education programs in FY 1990.

The attached documents from AASA, the Congressional Research Service, the Committee for Economic Development, the Select Committee on Children, Youth and Families, and the Committee for Education Funding offer statistics to reinforce the need for action now to invest in education.

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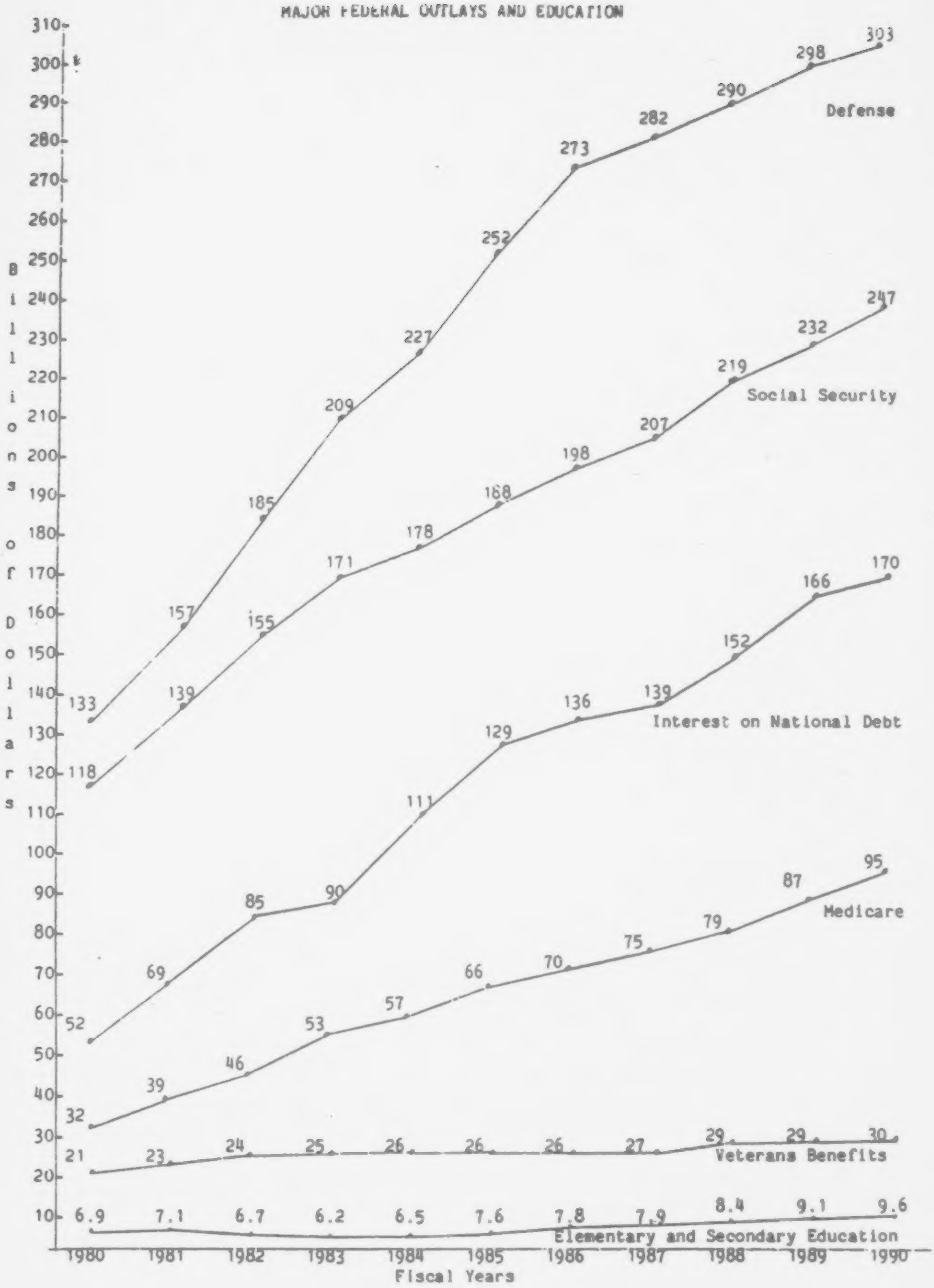
MAJOR FEDERAL OUTLAYS AND EDUCATION



88-764 EPW

CRS Report for Congress

COMPARATIVE EDUCATION: STATISTICS ON EDUCATION IN THE UNITED STATES AND SELECTED FOREIGN NATIONS

Kenneth Redd
Analyst in Social Legislation
and
Wayne Riddle
Specialist in Education Finance
Education and Public Welfare Division

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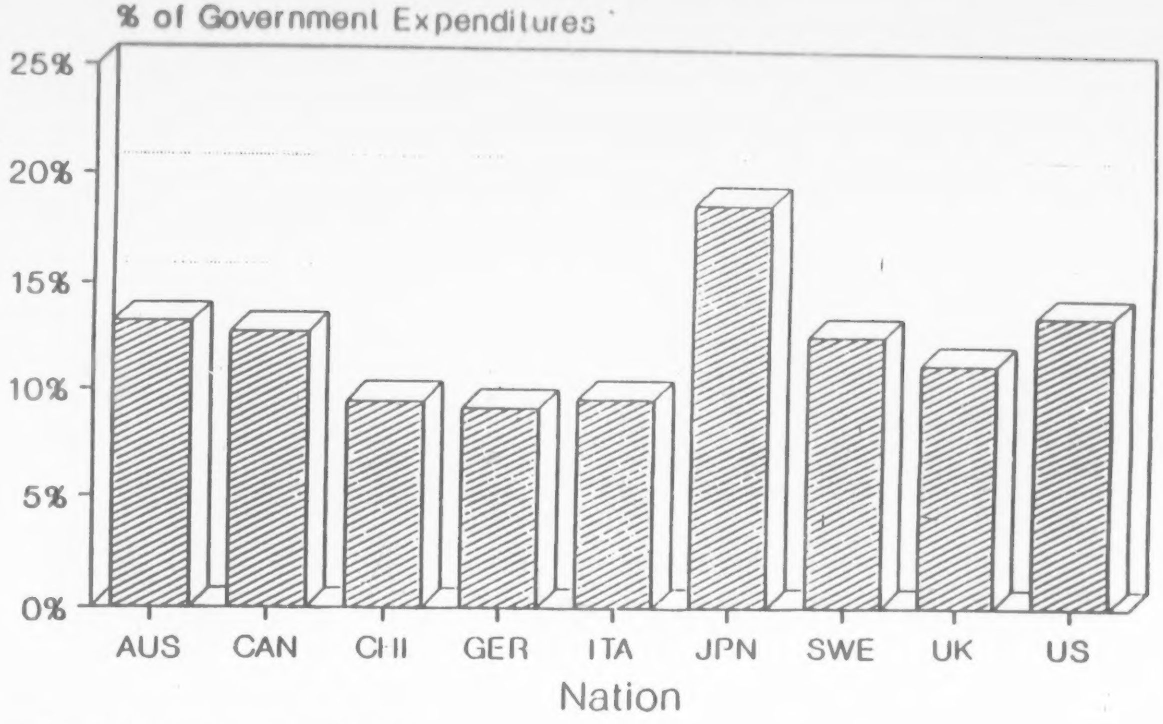
November 14, 1988

% GOVT. EXPENDS. FOR ED.

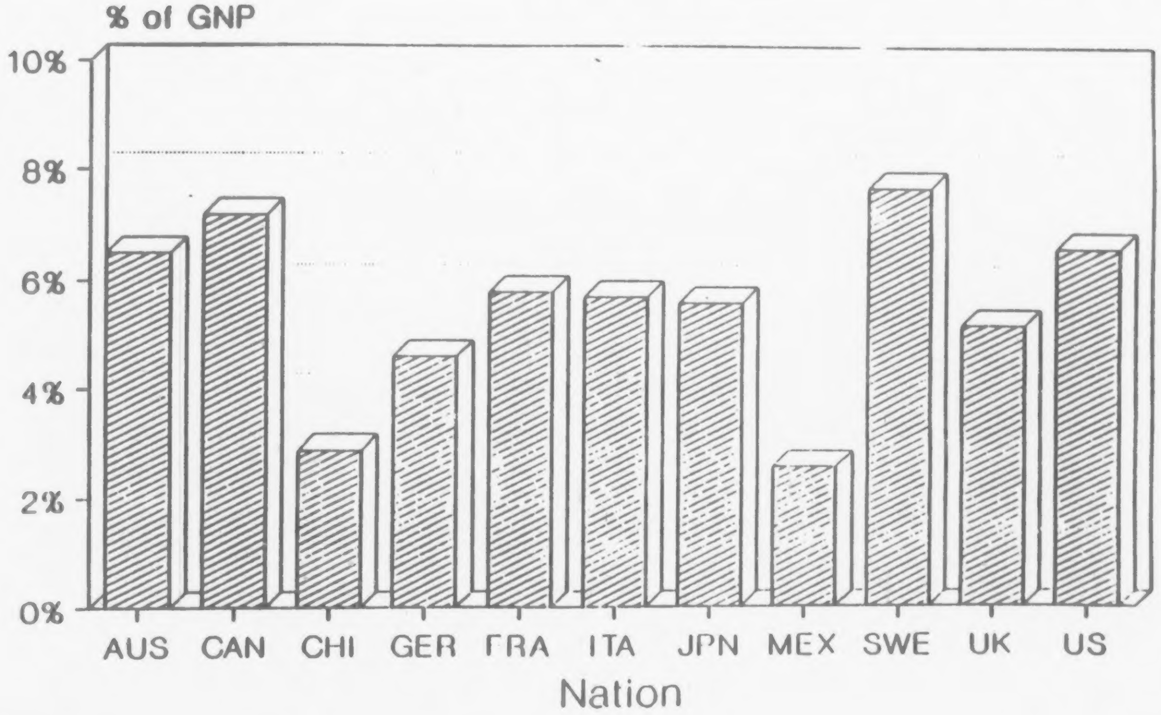
All Levels



Expenditure years vary--see table

% OF GNP FOR EDUCATION

All Levels



Expenditure years vary--see table

MATHEMATICS ACHIEVEMENT

Population B (17-year olds)

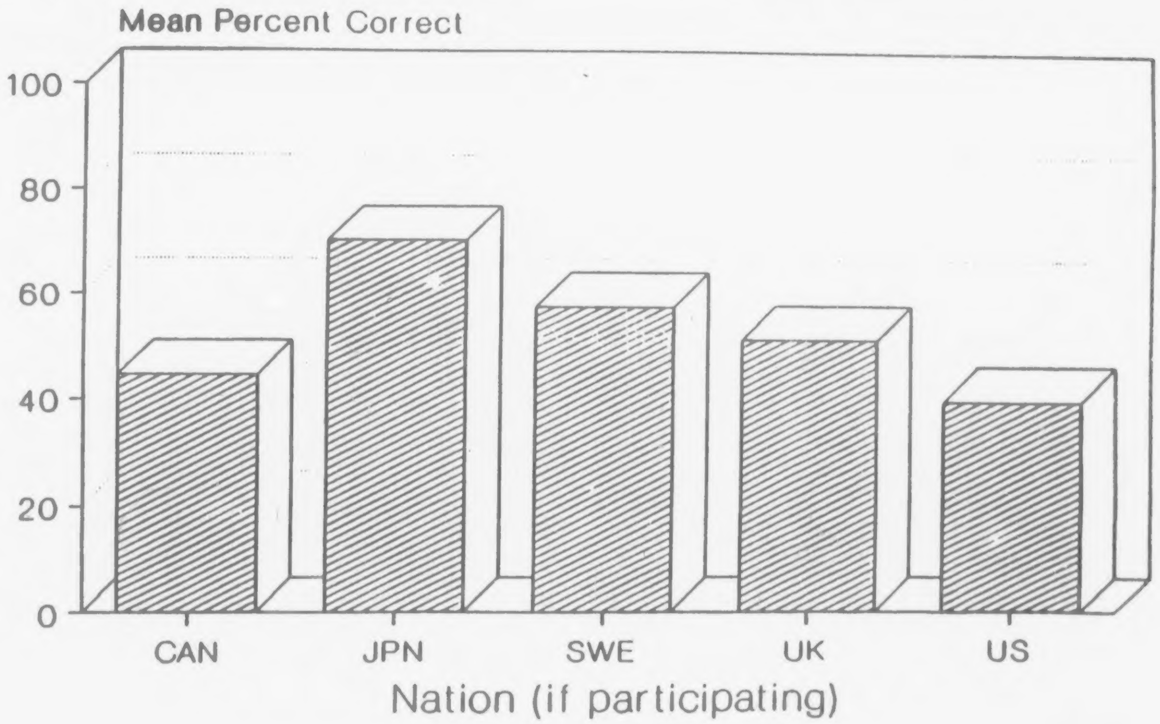


TABLE 9. Percentage Of Gross National Product and of Government Expenditures for Education at All Levels, 1985

Nation	Percentage of gross national product for education	Percentage of government expenditures for education
Australia a/	6.5%	13.2%
Canada	7.2	12.7
China	2.9	9.5 b/
Federal Republic of Germany	4.6	9.2
France c/	5.8	na
Italy d/	5.7	9.6
Japan e/	5.6	18.7
Mexico	2.6	na

a/ Data are for 1984.

b/ Source: Conversation with education liaison, Embassy of the People's Republic of China.

c/ Data are for 1982.

d/ Data are for 1983.

e/ Ibid.

TABLE 9. Percentage Of Gross National Product and of Government Expenditures for Education at All Levels, 1985--Continued

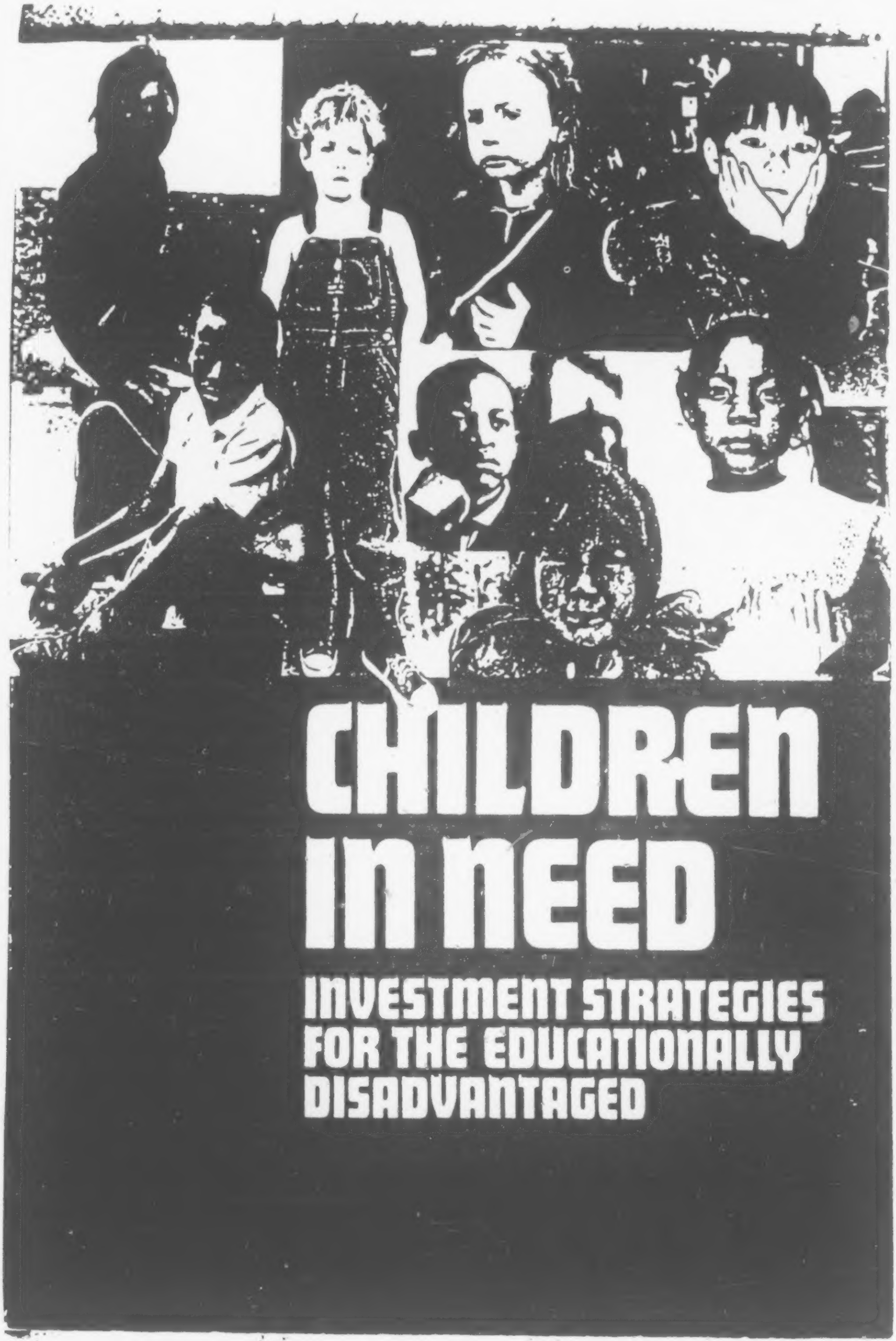
Nation	Percentage of gross national product for education	Percentage of government expenditures for education
Soviet Union	na	na
Sweden	7.7	12.6
United Kingdom f/	5.2	11.3
United States	6.6 g/	13.6 h/

f/ Data are for 1984.

g/ Source: Calculated from data compiled in the Digest of Education Statistics, 1987. p. 24, and the Statistical Abstract of the United States, 1988. p. 258, 410. Total U.S. educational expenditure are divided by estimated Gross National Product for 1985.

h/ Source: Calculated from data compiled in the 1988 Statistical Abstract of the United States. p. 254. Includes expenditures by all levels of government: Federal, State, and local.

Source (except where otherwise noted): United Nations Educational, Scientific, and Cultural Organization, 1987 Statistical Yearbook, chapter 4. p. 5-21. Data include capital expenditures.

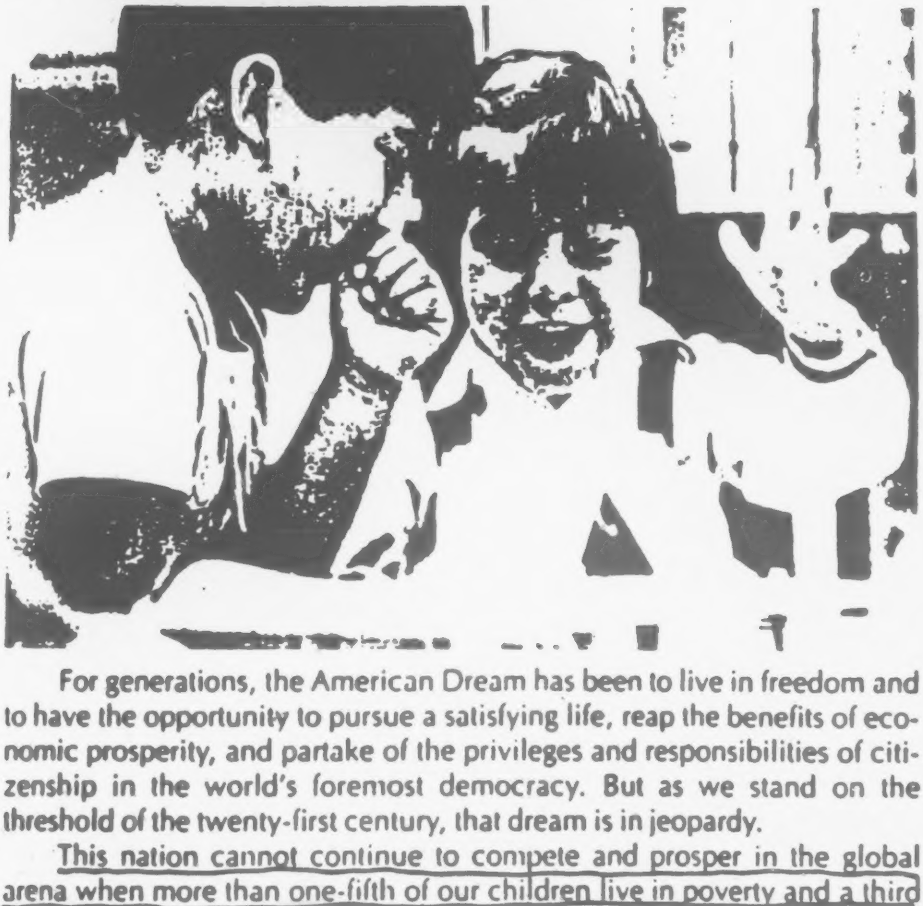


CHILDREN
IN NEED

INVESTMENT STRATEGIES
FOR THE EDUCATIONALLY
DISADVANTAGED

CHAPTER ONE

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS



For generations, the American Dream has been to live in freedom and to have the opportunity to pursue a satisfying life, reap the benefits of economic prosperity, and partake of the privileges and responsibilities of citizenship in the world's foremost democracy. But as we stand on the threshold of the twenty-first century, that dream is in jeopardy.

This nation cannot continue to compete and prosper in the global arena when more than one-fifth of our children live in poverty and a third grow up in ignorance. And if the nation cannot compete, it cannot lead. If we continue to squander the talents of millions of our children, America will become a nation of limited human potential. It would be tragic if we allow this to happen. America must become a land of opportunity — for every child.

els to ensure that these programs receive adequate financial support. Examples of such programs are Head Start and Chapter I, which still enroll only a small percentage of the eligible children who need them.

Another important issue that can benefit from increased business advocacy is the need for basic capital improvements in many older urban school districts and rural areas. Many schools, particularly in areas with high concentrations of disadvantaged children, are experiencing severe overcrowding and physical decay due to long-deferred maintenance. If schools are to become inviting and effective places where children can learn, such costly but necessary physical improvements will have to be seriously considered by policy makers and the public.

WHO IS RESPONSIBLE?

Solutions will require the combined efforts of many institutions: the public schools, businesses, foundations, community agencies, and every level of government. Development and implementation of many of the investment strategies we recommend will require both significant increases in funding and better targeting in order to assure that the necessary resources reach those children most in need. But although the problem of educating the disadvantaged is national in scope, progress is best achieved at the state and local levels, and most effectively within the individual school.

FEDERAL RESPONSIBILITIES

We believe that the federal government needs to reaffirm its longstanding commitment to ensuring the disadvantaged access to quality education. Without equity, there can be no real excellence in education.

The federal government can set the tone and direction for change by establishing and funding demonstration projects in early childhood education, dropout prevention, and other programs targeted to improving the quality of education for children in need. Although we do not envision that all such programs will be permanently funded at the federal level, federal leadership is needed at this time to help point the way for states that do not currently support preschool education or other targeted programs.

Because Chapter I remedial reading and mathematics programs and Head Start programs have had demonstrable success, we urge that federal funding for these programs be brought up to levels sufficient to reach all eligible children. Moreover, continuous assessment and tracking of data are needed to assure that reforms and special programs, such as Chapter I and Head Start, operate effectively. This is best accomplished at the

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About CED

The Committee for Economic Development is a private, nonprofit, and nonpartisan research and education organization whose goal is to study and seek solutions to pressing social and economic issues that most affect the long-term health of the nation's economy. CED's 225 trustees are mostly top business executives and presidents of major universities.

Memoranda of comment by members of the CED Research and Policy Committee and by members of the Subcommittee on the Educationally Disadvantaged appear in the full printed version of the policy statement.

[COMMITTEE PRINT]

100th Congress
2nd Session

HOUSE OF REPRESENTATIVES

CHILDREN AND FAMILIES: KEY TRENDS IN THE 1980s

A STAFF REPORT
OF THE
SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES
ONE HUNDREDTH CONGRESS
SECOND SESSION

DECEMBER 1988

Printed for the use of the
Select Committee on Children, Youth, and Families

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SCHOOL DROPOUT RATES HIGH;

YOUTHS LACK BASIC SKILLS

In 1988, between 750,000-950,000, or 25% of U.S. high school students left public schools without graduating. In 1987, 700,000 students graduated but were as deficient in basic skills and work habits as most dropouts.

- Between now and the year 2000, one in seven of today's preschoolers is at risk of dropping out of school. (CDF, 1987)
- One in four high school dropouts is unemployed. Between 1973-1986, young people who did not complete high school suffered a 42% drop in annual earnings in constant 1986 dollars. (BLS, 1988; W.T. Grant Foundation, 1988)
- Each year's class of school dropouts costs the nation more than $240 billion in lost earnings and foregone taxes over their lifetimes. (Catterall, 1985)
- Only 50% of high school seniors read at levels considered adequate for performing moderately complex tasks, and 80% have inadequate writing skills. In 1980, among high school sophomores, 1 million blacks, whites, and Hispanics had inadequate skills. (CED, 1987; Hispanic Policy Development Project, 1986)
- More than 75% of all poor youths have below average basic skills, and almost 50% are in the bottom fifth of basic skills because of poor reading and math skills. (CDF, 1988)

EARLY INTERVENTION PROGRAMS COST EFFECTIVE BUT TOO FEW CHILDREN PARTICIPATE

Investing in early intervention and prevention programs improves academic and social achievement and is cost effective. Nevertheless, millions of children who could benefit most still fail to receive these services.

- Every $1.00 invested in quality preschool education returns $6.00 in savings because of lower costs of special education, public assistance, and crime. Head Start, the comprehensive preschool program for low-income 3- to 5-year-olds, reaches less than 20% of the 2.5 million children who are eligible. (CYF, 1988)
- Chapter I, the primary federal education program for disadvantaged children, costs $750 annually per child, compared with $3,700 annually for a student repeating a grade. Yet, it reaches only 54% of low-income school-age children. (CYF, 1988; CDF, 1987)

FEDERAL FUNDS FOR EDUCATION SLASHED

Federal funds for education have been severely cut in the 1980s, reducing the nation's ability to educate it's most vulnerable citizens.

- The federal contribution to the nation's public schools was 6% in FY 1986, down from 9% in FY 1980. (Census, 1988)
- After adjusting for inflation, federal funding for Compensatory Education (Chapter I) decreased 7.2% from FY 1981-FY 1988. (CBPP, 1988)
- The Federal government's actual spending for all education activities decreased, in real terms, by 12% between FY 1980-FY 1988. (CYF, 1988)

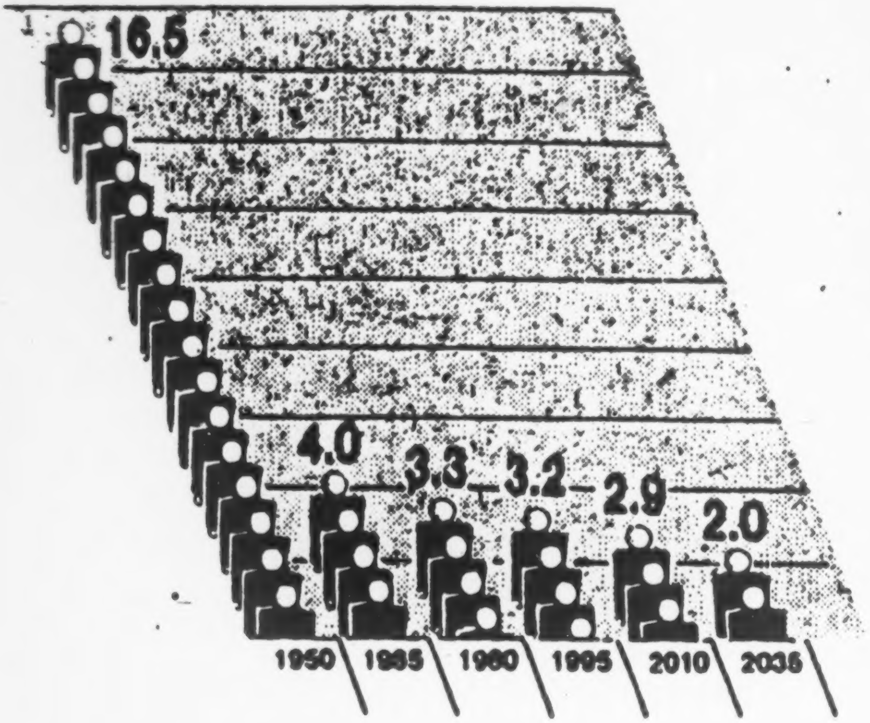
GLOSSARY OF SOURCES*

[BLS]	Bureau of Labor Statistics, U.S. Department of Labor
[CBO]	Congressional Budget Office
[CBPP]	Center on Budget and Policy Priorities
[CDC]	Centers for Disease Control, U.S. Department of Health and Human Services
[CDF]	Children's Defense Fund
[CED]	Committee for Economic Development
[Census]	Bureau of the Census, U.S. Department of Commerce
[CRS]	Congressional Research Service, Library of Congress
[CYF]	Select Committee on Children, Youth, and Families, U.S. House of Representatives
[DEA]	Drug Enforcement Agency, U.S. Department of Justice
[DOJ]	U. S. Department of Justice
[DOL]	U. S. Department of Labor
[EBRI]	Employee Benefits Research Institute
[HCFA]	Health Care Financing Administration, U.S. Department of Health and Human Services
[HHS]	U. S. Department of Health and Human Services
[IOM]	Institute of Medicine, National Academy of Sciences
[JCHS]	Joint Center on Housing Studies, Harvard University
[JEC]	Joint Economic Committee, U.S. Congress
[MIT]	Massachusetts Institute of Technology
[NAC]	Select Committee on Narcotics Abuse and Control, U.S. House of Representatives
[NAS]	National Academy of Sciences
[NCADV]	National Coalition Against Domestic Violence
[NCA]	National Council on Alcoholism
[NCHS]	National Center for Health Statistics, U.S. Department of Health and Human Services
[NIAAA]	National Institute on Alcohol Abuse and Alcoholism, U.S. Department of Health and Human Services
[NIJ]	National Institute of Justice, U.S. Department of Justice
[OTA]	Office of Technology Assessment
[USCM]	U. S. Conference of Mayors
[USDA]	U. S. Department of Agriculture

*The sources listed in this report are available in more detail at the Select Committee on Children, Youth, and Families.

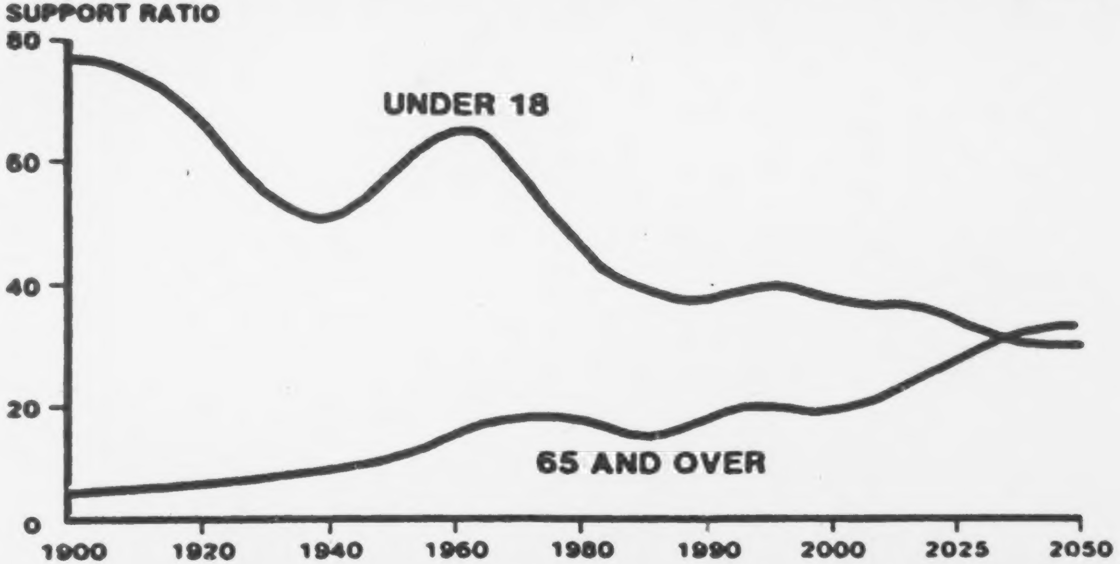
People Holding Jobs Per Beneficiary

Numbers for each calendar year.
Figures for 1995 and beyond are projections.



Source: Social Security Administration, unless otherwise indicated

GROWING ELDERLY DEPENDENCY
(YOUNG AND ELDERLY SUPPORT RATIOS: 1900-2050)



"YOUNG" SUPPORT RATIO IS THE NUMBER OF PERSONS UNDER 18 PER 100 AGED 18 TO 64 YEARS.
"ELDERLY" SUPPORT RATIO IS THE NUMBER 65 AND OVER PER 100 AGED 18 TO 64 YEARS.

SOURCE: U.S. CENSUS BUREAU, 1983

THE COMMITTEE FOR EDUCATION FUNDING

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FOR IMMEDIATE RELEASE
Thursday, January 5, 1989

Contact: Susan Frost
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EDUCATION COALITION ISSUES CHALLENGE TO "EDUCATION PRESIDENT"

Washington, D.C. -- The Committee for Education Funding (CEF) today defined the task of an "Education President" and challenged President-Elect George Bush to commit for Fiscal Year 1990--as a down payment on a four year investment strategy--$2.5 billion in new funds for federal education programs.

CEF, a coalition of 100 organizations representing more than 50 million elementary, secondary and postsecondary students, parents, teachers, presidents, administrators, librarians, counselors, trustees, and school board members, has outlined an education budget recommendation to cover the cost of inflation and to provide necessary additional funding for elementary, secondary and postsecondary education programs, particularly those aimed at disadvantaged children.

CEF President Gerald Morris, Deputy Director of Legislation for the American Federation of Teachers, said that a four-year, $10 billion effort is needed to make education a significant budget priority in the Bush Administration.

"In FY 1979," Morris said, "education represented 2.5

(more)

percent of the federal budget; by FY 1988 it had dropped to only 1.7 percent. We all recognize that national priorities are determined by the share they are allotted in the budget. If education had remained at 2.5 percent of total federal spending, funding for the U.S. Department of Education would be $31.2 billion instead of the current $21.9 billion.

"That is why CEF recommends a four-year effort, beginning with a $2.5 billion increase for education in FY 1990."

Morris noted that one of President-Elect Bush's campaign themes was his intent to become the "education president."

"We welcome this emphasis," Morris said. "It comes at a time when there is an education deficit in the United States. If this nation is to regain its stature as an internationally competitive economy, provide personnel for a strong defense, and lay the foundation for future economic growth and prosperity; we must have a well-educated workforce.

"According to the Congressional Research Service and the Congressional Budget Office, since 1980 poverty among children has increased to 22 percent," Morris continued. "During this same time period 500,000 disadvantaged preschool and elementary school students were dropped from the Chapter 1 program that provides federally-supported compensatory education for disadvantaged children. Today Chapter 1 can only serve less than half of the children eligible for this vital program. And the share of federal support for the education of more than four million handicapped children has declined from a high of 12.5 percent in 1979 to just 8 percent today."

(more)

CEF Vice President Becky H. Timmons, Director of Congressional Liaison for the American Council on Education, said that at the college and university level, "an increasing number of low-income students have been forced to borrow more to finance their educations. The focus on student aid for the needy has shifted from grants to loans.

"In 1979 Pell Grants, the major federal student assistance program, covered nearly 50 percent of total college expenses," said Timmons, "currently they cover 29 percent. Since 1980, funding for the Supplemental Educational Opportunity Grant program--when adjusted for inflation--decreased by 18 percent; College Work-Study funding decreased by 23 percent, Perkins Loan funding declined by 53 percent and TRIO programs for the disadvantaged were cut by 13 percent."

"An 'Education President'", said Morris, "should view a down payment on our national education deficit as an imperative that cannot be postponed. CEF recommends the following increases for FY 1990:"

$ 768.0 million -- to cover the cost of inflation on the proven base of all currently funded federal discretionary education programs.

800.0 million -- to provide a modest added investment in elementary and secondary education programs aimed at disadvantaged students.

800.0 million -- to provide a modest added investment in postsecondary education programs aimed at disadvantaged students.

150.0 million -- to provide for presidential initiatives and for a modest added investment in other vital programs.

$2,518.0 million-- Total Education Department Increase over FY 89

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POSITION STATEMENT

COMMITTEE FOR EDUCATION FUNDING

January 5, 1989

The November election, at the presidential level and in countless congressional, state and local races, focused a bright spotlight on the need for a renewed commitment to invest in education.

President-Elect George Bush has assured the American people of his intent to be the "education president." His election can be seen, in part, as a national mandate to fulfill that pledge.

This presidential emphasis on education is most welcome. It comes at a time when U.S. corporate leaders, philanthropic foundations, and myriad reports have been stressing the urgency of concentrating more of our federal resources on education, particularly on education of the disadvantaged.

But what must an "education president" do to meet this commitment?

THE PROBLEM

As a result of previous cutbacks and deferred priorities, there currently exists in the United States an education deficit, the scope of which is comparable to a chasm, separating children with academic and financial resources from children who have neither. Breeching this chasm will require a substantial and steadily increasing investment in the demonstrably effective but severely underfunded federal education programs.

Since 1980, federal spending for education--despite a growing population of disadvantaged young people, at whom most federal education programs are aimed--has decreased 4.7 percent in real terms. In FY 1980, education represented 2.5 percent of the federal budget; in FY 1988 it represented only 1.7 percent. If priority of investment in education had been sustained in the intervening eight years and remained at 2.5 percent of the total federal budget, funding for the U.S. Department of Education in FY 1989 would total $31.2 billion instead of the current $21.9 billion.

What has this meant to children in need, our future workforce in the 21st Century? It means that while poverty among all children has grown to 22 percent, participation in the "Chapter 1" program of compensatory education for disadvantaged children has dropped by 500,000 students since 1980. Chapter 1, which is successfully raising the reading and math competency of 4.5 million children, is serving less than half of the youngsters eligible for this vital help. It means that Head Start, the proven preschool program for disadvantaged children, continues to serve only 453,000 youngsters, less than 20 percent of its eligible population. It means that the share of federal support for the education of more than four million handicapped children has declined from a high of 12.5 percent in 1979 to just 8 percent today. It means that the maximum Pell Grant award a needy college student can expect to receive will cover only 29 percent of total college expenses, while covering nearly 50 percent of those expenses in 1979. And it means that since 1980, funding for the Supplemental Educational Opportunity Grant program--when adjusted for inflation--decreased by 18 percent; College Work-Study funding decreased by 23 percent, Perkins Loan funding declined by 53 percent, and TRIO programs for the disadvantaged were cut by 13 percent.

WHAT NEEDS TO BE DONE

If this nation is to regain its stature as an internationally competitive economy, provide the personnel for a strong defense, and lay the foundation for future economic growth and prosperity; we must work smarter with a well-educated workforce. Thirty-five years ago 17 people were employed for each retiree in the Social Security system, by 1992 there will only be three. Clearly, all three must be productive. To continue to deny eligible children access to proven federal education programs is an act of national negligence that accepts increased dropout rates and lives spent in a fruitless search for jobs at the margins of an economy that cannot afford to have marginal workers.

The American people look to the President to take the lead in making education funding a significant budget priority in the next Administration.

At least $10 billion is needed to simply bring education back to the budget share it received in 1979. Growth in the federal programs can only truly be measured against that yardstick, and, beginning with a significant down payment in FY 1990, a four-year effort should be mounted to achieve this goal.

The members of the education community well understand the strain that has been placed on the budget by excessive deficit spending, and we favor equitable efforts to hasten its elimination. But, in recent years other elements of the budget have witnessed rapid growth, while federal education spending was pushed back in the name of deficit reduction. This trend must be arrested, and education funding must be allowed to rise as a percentage of budget expenditures.

The N tion looks to an Education President to make the down payment. Eight years of net loss for education have allowed too many young people in an entire elementary school cohort (Kindergarten in 1980 through eighth grade in 1988) and those who would have been among two complete college graduating classes (1984 and 1988) to become victims of lost opportunity. Education funding within the FY 1990 federal budget must include the first of several signficant steps to increase our nation's investment in its young people.

Therefore, the Committee for Education Funding, a 20-year-old 100-member coalition whose organizations represent more than 50 million elementary, secondary and postsecondary students, parents, teachers, administrators, presidents, librarians, counselors, trustees and school board members calls on the President and the President-Elect to commit $2.518 billion in new funds for federal education programs.

The recommended increase has these components:

$ 768.0 million -- to cover the cost of inflation (4.1%) on the existing, proven base of all currently funded federal discretionary education programs. This will enable every program, from the small gifted and talented education program, to Impact Aid, to the larger Pell Grant program, to continue without any reduction in the services delivered in FY 1989.

800.0 million -- to provide a modest added investment in elementary and secondary education programs aimed at disadvantaged students (Chapter 1, Education of the Handicapped, Secondary School Basic Skills, Magnet Schools, Even Start, Dropout Prevention). For every $600 in added Chapter 1 funds, local schools will be able to provide more individualized instruction to one additional child among the approximately 5 million who are eligible but not currently served.

800.0 million -- to provide a modest added investment in postsecondary education programs aimed at disadvantaged students (Pell Grants, Supplemental Education Opportunity Grants, College Work-Study, Perkins Loans, State Student Incentive Grants, and Special Services for Disadvantaged Students). This will permit a modest increase in grant and work programs to lessen reliance by disadvantaged students on the use of loans.

150.0 million -- to provide for presidential initiatives and for a modest added investment in other vital programs such as Vocational Education, Library Services, Adult Education, literacy programs, etc. This will enable greater investment in all-important library resources and greater emphasis on worker preparation, math/science education, minority science improvement and graduate fellowships.

$2,518.0 million -- Total Education Department Increase over FY 89

We also believe that up to $500 million should be added to the Department of Health and Human Services budget for a significant increase in the Head Start program, and that the important child nutrition programs funded through the Department of Agriculture should be maintained at their current levels.

Statements in Support of Increased Education Funding

"Immediate action is necessary to halt the continued growth of a large, permanent underclass of young people who cannot qualify for employment because they lack fundamental literacy skills and work habits."

"Historically, the federal government has had an important role to play in targeting resources to children in need. It needs to reaffirm this long-standing commitment to ensuring the disadvantaged access to quality education."

"The remedial reading and mathematics programs of Chapter 1...and Head Start have had demonstrable success, and federal funding of both programs should be brought up to levels sufficient to reach all eligible children."

Investing In America's Future
Committee for Economic Development, 1988

"In the U.S. today, one child in five is poor. This is intolerable in the history's richest nation. Children make up the biggest single segment of the 32 million Americans who live below the official poverty line."

"There is no easy answer to the problem of ingrained poverty. But early intervention in the lives of poor children offers the best opportunity to break the cycle of poverty. There is solid evidence that Federal programs such as Head Start, prenatal care, immunization, the Women's Infant and Children feeding program and compensatory education do work, and offer one of the best investments the country can make in its own people."

"Spending public funds for these young Americans is not wasteful; it is wasteful not to invest in the medical attention, the education and the job training that will provide poor children with a share in the American opportunity."

"We recommend that you set a goal of full Federal funding for Head Start, WIC, Compensatory Education (Chapter 1), prenatal care, immunization and preventive health care programs for all eligible disadvantaged children within eight years, and move toward that goal by recommending in your Fiscal 1990 budget an annual increase of $2 billion until the goal is reached."

"Education and job training is the second imperative....We urge you to launch a national effort at improving productivity...You can support federal funds for the demonstrably effective programs like Head Start and compensatory education. You can seek to broaden access to higher education for all qualified to enter college, and encourage more bright students to choose graduate work in science and engineering...You can support long-term extension of the research and development and university basic research skills."

American Agenda
Report to the 41st President of the U.S.
Gerald R. Ford and Jimmy Carter, 1988

"Head Start. Quality development support must be followed up with effective preschool programs...Additional funding is needed."

"Chapter 1. The federal commitment to education of the disadvantaged must be sustained through elementary and secondary school...Here, too, additional funds are required."

"Math and science programs. The Council recommends increased funding to strengthen programs to train math and science teachers."

"Post-secondary education. The Council recommends higher levels of funds for programs to ensure post-secondary access for low-income students...Current federal programs do not provide the resources needed and should be expanded."

Reclaiming the American Dream: Fiscal Policies For A Competitive Nation
Council on Competitiveness, 1988

"What did we find?

"*People do want a balanced budget;

"*Americans will support the hard choices necessary to balance the budget; but

"*They will support those hard choices only as part of a package which is generally perceived to be fair.

"*'Fair' packages spread the burden of deficit reduction broadly across interest groups and regions.

"*If there are two 'sacred cows' in he federal budget this year, they are education and environmental programs;"

Exercise In Hard Choices
Committee for a Responsible Budget, 1988

Senator PELL. We now come to Ms. Gallagher, who is president of the South Carolina NEA.

STATEMENT OF MS. SHEILA GALLAGHER, PRESIDENT, SOUTH CAROLINA EDUCATION ASSOCIATION, COLUMBIA, SC, ON BEHALF OF NATIONAL EDUCATION ASSOCIATION

Ms. GALLAGHER. Thank you, Mr. Chairman, Senator Kassebaum. I am Sheila Gallagher, president of the South Carolina Education Association, and on behalf of the National Education Association, I appreciate this opportunity to speak with you on the Educational Excellence Act.

Two years ago, this committee began its work on the Stafford-Hawkins Elementary and Secondary Education Improvement Act. Those efforts were grounded in a recognition that individual students have unique needs and that education programs must have sustained assistance to be successful.

This committee has more than just a track record, it has a proud tradition of establishing significant education programs. Over the past three decades, Congress, under the leadership of the Labor and Human Resources Committee, has made an enduring contribution to the lives of millions of Americans.

I would like to be able to come before you and say that the Educational Excellence Act of 1989 would truly make a significant difference. But in all candor I cannot. The programs embodied in this measure are marginal at best, and some would be lacking leadership and taking leadership in the wrong direction.

This bill would authorize more than $2.2 billion over four years, including more than $1.5 billion for a recognition program that amounts to little more than a pat on the head to schools and communities that face serious obstacles in their efforts to prepare our Nation's young people for the next century.

NEA will be the first to admit that there is still work to be done. America is changing. Its people, its economy, its institutions, they are all changing. And the public schools must be transformed not merely to reflect changes up to now but to lead our Nation forward into the future.

Some components of this bill can be of value. NEA supports an increase in the endowment grants for Historically Black Colleges and Universities and assistance to address the scourge of drugs that threatens America's youth, America's future.

The national science scholars program is a nice idea, but compared to the widening gap between the costs of postsecondary education and the level of assistance available from existing Federal student aid programs, the $5 million that it would provide in fiscal year 1990 is less than a drop in the bucket.

On the other hand, some components of the Excellence in Education Act would divert Federal resources down avenues that are counterproductive. States have devoted considerable efforts to strengthening the requirements for teacher preparation and teacher certification. This measure would provide funds to help circumvent those standards. The $25 million proposed for this program would be far better invested in research by the national board for professional teaching standards.

The presidential awards for excellence in education would not help identify, recruit, and prepare qualified individuals for education careers. Nor would it address the compensation needed to attract and retain qualified professional educators.

The magnet schools of excellence is intended to advance open enrollment, a concept which at its best is an untested experiment and at its worst the path to a massive resegregation of the public schools by ability, by class, and by race.

We welcome discussion of an education initiative supported by Congress, by the President and by the people. But schools and the students served in them deserve more than rhetoric, rewards, and redundancy that this measure offers.

There are alternatives. The most important step Congress could take is to provide full funding for existing programs and extend access to all eligible students.

Next, Congress should establish and support programs to address the academic, nutritional, health care, and social needs of our Nation's disadvantaged students.

Third, Congress should provide the resources that will enable school districts to expand and strengthen academic programs in the areas that our children need to be successful for in the future. And in this time of limited resources, if this committee does move forward with any elements of this legislation, funding should not come at the expense of existing Federal education programs that we know work.

Let me repeat that. Funding should not come at the expense of existing Federal education programs that we know work.

We commend this committee for its efforts to develop initiatives that help America's students at every level, and we look forward to working with this committee in maintaining the national drive toward excellence and equity in education.

I thank you very much.

Senator PELL. Thank you very much, Ms. Gallagher.

[The prepared statement of Ms. Gallagher follows:]

PREPARED STATEMENT OF SHEILA GALLAGHER ON BEHALF OF THE NATIONAL EDUCATION ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

I am Sheila Gallagher, president of the South Carolina Education Association. On behalf of the 1.9 million-member National Education Association, which represents professional and support employees in public elementary, secondary, vocational, and postsecondary schools throughout the nation, I appreciate this opportunity to speak about the role the federal government can play in maintaining the drive toward excellence and equity in public education.

Approximately two years ago, this Committee began its work on the reauthorization of a dozen essential federal elementary and secondary education programs. Those efforts were grounded in a recognition that individual students have unique needs, that some students require special assistance to succeed in school and in life, and that schools must have sustained assistance to be able to provide quality educational services for disadvantaged students, students with limited proficiency in English, and other students at risk. After careful study, this Committee acknowledged that federal education programs such as Chapter 1 compensatory education for disadvantaged students worked well and deserved to be continued. And at the same time, this Committee established new programs — such as concentration grants, dropout prevention, and parental involvement — that were developed based on the recommendations of teachers, administrators, parents, and others with a strong interest and experience in education.

The process by which the Labor and Human Resources Committee developed these education programs reflects a model for developing ways to provide meaningful assistance to students and public schools. Too often, particularly in recent years, well-intentioned people have attempted to make changes in education without an adequate assessment of what the most pressing needs are, without consulting with professionals in the field, or by striking out on a parallel track, or even a divergent track, rather than building on the foundation that already exists.

NEA would be the first to admit there is still work to be done in advancing the goals of excellence and equity in education. We have long advocated a full commitment to specific elementary and secondary education programs that have proven successful, such as Chapter 1, handicapped education, bilingual education, Indian education, and the rest. We have long advocated a full commitment to programs that meet the human needs of disadvantaged children, including child care, nutrition and health programs, programs to stem the tide of chemical dependency, juvenile delinquency, and sexual promiscuity. We have long advocated a significant general aid program to help local communities meet their responsibility to maintain and operate the public schools. We have advocated new programs to meet emerging challenges in education: a greater emphasis on education personnel development, including programs to encourage more ethnic and racial minorities to enter the teaching profession; programs to encourage a more collegial approach to problem-solving at the local level, including assistance for site-based decision-making, professional development resource centers; school restructuring based on local needs and locally determined goals; and programs to improve the standards for entering and incentives for remaining in the teaching profession, as well as providing ongoing assistance to stay current in subject matter and methodology.

NEA is not alone in its commitment to effective programs to help continue the drive toward excellence and equity in education. The Committee for Economic Development has compiled a number of reports in recent years calling for a significant investment in education and outlining a number of specific programs that schools and communities, with assistance from state and federal governments, can initiate to address the real needs in education. In its 1987 report, "Children In Need: Investment Strategies for the Educationally Disadvantaged," CED reminded Americans that "raising standards for all students without increased efforts to help those who may not meet those standards will go only part way in realizing the nation's educational goals." It called for the nation to embark on a "third wave" of education reform "that gives the highest priority to early and sustained intervention in the lives of disadvantaged children." The public schools alone cannot make the kind of progress the public expects. It calls for a sustained community effort with the close involvement and support of parents and other family members. CED called for a greater emphasis on prenatal and postnatal care for pregnant teens and other high-risk mothers; parenting education for both mothers and fathers, family health care, and nutritional guidance; quality child care arrangements for poor working parents that stress social development and school readiness; and quality preschool for all disadvantaged 3- and 4-year-olds.

This Committee and this Congress have an opportunity to exert leadership in these areas so that — in cooperation with state and local government, with the private sector and individual families — all children have access to these services.

In terms of the structure of the public schools, CED advocates school-based management that involves principals, teachers, parents, and other school personnel in shared decision-making and accountability; smaller schools and smaller classes; up-to-date educational technology integrated into the curriculum to provide new learning opportunities for students; additional pedagogical support for teachers; support systems within the schools that include health services, nutritional guidance, and psychological, career, and family counseling; and increased emphasis on extracurricular activities that help build academic, social, or physical skills.

In short, the CED recommendations, like NEA's recommendations, constitute a comprehensive program for reform and renewal in public education. These recommendations are grounded in a close, longitudinal study of the public schools, and the students and educators who populate them, and consider what resources and programs they must have to fulfill the expectations of the American people and the future needs of our nation. No one is suggesting that providing those resources and developing and maintaining those programs will be an easy task. But the fact is America is changing, its people, its economy, and its institutions are changing, and the public schools must be transformed — not merely to reflect societal changes up to now — but to lead our nation forward into the future.

The Excellence in Education Act

I'd like to be able to come before you and say that this proposed legislation, the Excellence in Education Act of 1989, would truly make a significant difference in the quality of education programs across the nation. But in all candor, after careful study of the various components that make up this initiative, the programs embodied in this measure are marginal at best, and some would be leadership in the wrong direction.

The structure of the Excellence in Education Act of 1989 is sound. It has the appearance of being a major education initiative. Its findings are, for the most part, beyond challenge. It has components that are designed to address several different aspects of our educational system. It includes some resources to carry out its objectives. It emphasizes state and local control. However, it is unclear how this measure does anything meaningful to address the key needs of public schools or students. This proposal falls far short of providing the kind of design, resources, or leadership to initiate any of the recommendations NEA, CED, or any other organization with experience in the strengths and weaknesses of the public school have advanced in recent years.

There are positive elements in this package. For instance, NEA supports an increase in the endowment grants for Historically

Black Colleges and Universities, and we support assistance to school districts to address the scourge of drugs that threatens the future of America's youth. The Drug-Free Schools Urban Emergency Grants and the endowment awards to the Historically Black Colleges and Universities would build on an existing framework, they would address real needs, and they would provide resources to accomplish goals established by the education community.

The National Science Scholars Program is a nice idea. But compared to the widening gap between the costs of postsecondary education and the level of assistance provided under existing federal student aid programs, the $5 million it would provide in FY90 is less than a drop in the bucket.

Recognition versus Meaningful Assistance

Mr. Chairman, we simply cannot fool ourselves. Providing awards to schools for their accomplishments as in the Merit Schools program is not even icing on the cake; it is the decorative cherry one would place in the center of the cake after it has been frosted. At a time when most people are talking about the need to establish national goals in education, this program would reward local schools for meeting their own criteria. At a time of limited federal resources, it is counterproductive to devote this level of resources to a program that, in effect, duplicates existing state and local recognition programs. More importantly, the Merit Schools plan fails to provide a sustained commitment to public schools with serious obstacles to achieving meaningful education reform and improvement. A one-time grant would not enable schools to establish new programs or pay teachers more, or address the physical deterioration of schools. At a time when budgetary restrictions bring every expenditure under close scrutiny, it's important to meet the greatest needs first. Giving out prizes for doing well is not the first or greatest need.

In addition, the proposed legislation would provide $100 million in FY90 for Magnet Schools of Excellence. Again, this change would tend to undermine longstanding efforts at the state and local level to establish a positive route toward desegregation. Instead, this proposal is intended to promote open enrollment, a concept which is at best an untested experiment and at worst the path to a massive resegregation of the public schools — by ability, by race, and by class.

Leadership in the Wrong Direction

Some components of the Excellence in Education Act are, in fact, leadership in the wrong direction. In the last two decades, states have devoted considerable time and effort to strengthening the requirements necessary to ensure a qualified teacher is present in every classroom. The National Board for Professional Teaching Standards — which is designed to promote the improvement and standardization of preservice and inservice education for professional educators — is still in its infancy. At the same time, more than half the states already have escape hatches to allow persons without such training to cover classrooms. And now this measure would provide states $25 million in FY90 to explore new ways to circumvent existing certification standards.

Mr. Chairman, as you know, there are no shortcuts to excellence. In March 1989, the Rand Center for the Study of the Teaching Profession released a study entitled, "Redesigning Teacher Education: Opening the Door for New Recruits to Science and Mathematics Teaching." After looking at several alternatives to teacher education, the Rand study concluded that, as a group, alternative certification recruits were the least satisfied with their coursework, the least satisfied with their practicum, and in most cases the most frustrated in the lack of preparation for the classroom. Proponents of alternative certification tend to downplay the importance of pedagogical training, but according to the Rand study, "the most frequently mentioned need was for additional coursework in teaching methods...Alternative certification recruits wished they had had training in teaching methods and classroom management before they entered the classroom..." The Rand report concludes that "the nontraditional programs that follow a more 'traditional' preparation approach—providing substantial pedagogical coursework before recruits enter the classroom and providing supervision and graduated assumption of responsibility during an internship—are more effective in the eyes of their participants and graduates. Programs that severely truncate coursework and place candidates on the job without adequate preparation or supervision are, not surprisingly, least well-rated by recruits."

Furthermore, the Rand report questions whether scientists and engineers are a viable pool for recruiting teachers. The National Science Foundation reports that of 21,423 respondents employed in scientific and technical occupations in 1970, only 121 switched to precollege teaching during the course of the decade, most taught for only one or two years, and after 10 years, only three remained in the classroom. The Rand study reports about 4 percent of these 21,423 scientists had education degrees, but only 0.2 percent were teaching at the K-12 level, concluding "for this group, 'defectors' outnumbered entrants to teaching by a ratio of 20 to 1."

In our view, Mr. Chairman, the $25 million proposed to encourage states to explore alternative certification procedures would be far better invested through funding the research for the National Board for Professional Teaching Standards as proposed in S. 478, as introduced by you and Senator Dodd.

Since 1857, NEA has been dedicated to improving the teaching profession. And toward that end, we have supported efforts to improve the compensation of teachers and other education employees in order to attract and retain qualified individuals in education professions. One of our first and most enduring goals as an organization is to assure that there is a qualified teacher in every classroom. And in our view, the Presidential Awards for Excellence in Education component of this bill does not lead us toward that end. All teachers should be fairly compensated for the service they perform, and one cannot get around that basic fact. A one-shot $5,000 award for a relative handful of teachers is not nearly effective as efforts to identify, recruit, and prepare qualified individuals to education careers, efforts to strengthen the standards and certification for those entering the profession, and efforts to provide professional compensation for all education employees.

There Are Alternatives

The Excellence in Education Act, as introduced, would authorize more than $2.2 billion over four years to state and local education agencies. The largest component of this Act, the Merit Schools program, would devote more than $1.5 billion to a recognition program that amounts to little more than a pat on the head to schools and communities that face serious obstacles in their efforts to prepare our nation's young people to address the educational, social, and economic challenges of the next century. This Committee has more than just a track record of establishing significant education programs; it has a proud tradition. Over the past three decades, Congress — under the leadership of the Labor and Human Resources Committee — enacted the Elementary and Secondary Education Act of 1965, the Bilingual Education Act of 1968, the Education for All Handicapped Children Act of 1974, and the dozens of other programs that have made an enduring contribution, not only to public education, but to the lives of the millions of Americans public education has touched and continues to touch each year. The legislation before you does not build on that foundation; it is more of a stroll down the garden path.

America's public schools and the students served in them deserve more than the rhetoric, rewards, and redundancy this measure offers. At present, only about one-half of the students eligible to participate in compensatory education programs actually receive services. The appropriations for the state grant portion of the Education for All Handicapped provides only about 7 percent of the costs above average per pupil expenditures, far short of the 40 percent Congress pledged to provide when the programs were established. FY89 appropriations for bilingual education programs is sufficient to serve only about one-sixth of the students reported by states as limited English-proficient. The first, the most important step Congress could take toward excellence in education should be to provide funding for the full range of existing programs that extends access to all eligible students. Second, Congress should establish a comprehensive network of programs to address the academic, nutritional, health care, and social needs of our nation's disadvantaged children. Third, Congress should provide the resources that will enable school districts to expand and strengthen programs in the areas our children will need to be successful in the future. When that agenda is completed, there will be no need for a recognition program for schools for accomplishing what they all ought to be doing now.

Finally, in this time of limited resources, we are deeply concerned that funds for new programs not come at the expense of existing federal education programs that we know work. Chapter 1, bilingual education, handicapped education, and the rest are seriously underfunded; after accounting for inflation, federal elementary and secondary education programs have lost $4.2 billion since 1980. If this Committee does move forward with any of the elements of the Excellence in Education Act, the programs should be financed with new funds.

We commend this Committee for its work in developing and supporting programs that help state and local education agencies address the needs of our nation's young people, and we look forward to working with this Committee in the ongoing process of monitoring and refining existing programs, and developing new programs to maintain the national drive toward excellence and equity in education.

Senator PELL. Regarding the magnet schools proposal which we have discussed here, might it not be better to consider it as a third category to be funded after we have fully provided for schools under desegregation orders or voluntary desegregation plans in the magnet school program and then, second, those with a heavy concentration of minorities under the alternative curriculum proposal? It is a complicated question, but it's a question really of priorities. I was just curious what each of you thought.

Ms. Gallagher, what would be your thoughts?

Ms. GALLAGHER. Senator, if I could have you repeat that question?

Senator PELL. Yes. The question is: Regarding the magnet schools proposal, might it not be better to consider that as a third category to be funded after we have helped schools under desegregation orders in the magnet schools program and then those with a heavy concentration of minorities under the alternative curriculum proposal?

Ms. GALLAGHER. I think the first priority is to be sure that our disadvantaged schools are helped first, and it's very hard for me to state where I really believe the magnet schools fit into that proposal because I see a very, very good chance that this is really segregation.

Senator PELL. Thank you.

Dr. Thomas.

Dr. THOMAS. Yes. I support the notion of helping those schools that need the most help financially, that have the highest percentage of disadvantaged.

My experience tells me that magnet schools have served a purpose, in my judgment, a political purpose, to accomplish certain things, whether it be desegregation. But as far as raising the quality of education in a district, I would question it because I don't think you get the spinoff and the fallout and the modeling that we would like to see that spreads throughout, that would pervade the system.

So magnet schools would not be my top priority.

Senator PELL. All right. Thank you very much.

Mr. McCully.

Mr. McCULLY. Yes, Senator. Our testimony did speak to that, I think, where we would propose a trigger at $200 million prior to going into magnet schools for excellence.

And also, I believe my testimony suggested combining the objectives of magnet schools for excellence with the Secondary School Basic Schools Act that is already in place.

Senator PELL. Thank you very much indeed.

Dr. Bennett.

Dr. BENNETT. Senator Pell, I would add to the comments already made that I am a very strong proponent of magnet schools in the desegregation process that have had extensive experience across the United States in these kinds of desegregation plans.

I am also, being from Minnesota, familiar with the ways in which magnet schools can contribute in the choice process.

Let me underscore the point, however, that the State of Minnesota in combination with local funding is already accomplishing this without the aid of Federal intervention. We have countless examples of schools that are alternative or magnet schools in Minnesota that have been accomplished beautifully within the existing funding. We simply don't need this kind of additional effort except in the areas of desegregation, and this remains the American dilemma and we need more money with respect to magnet school support for the desegregation imperatives.

Senator PELL. Thank you very much.

Mr. Marec.

Mr. MAREC. Mr. Chairman, AFT does support the concept of magnet schools, but in and by themselves we don't think that that's the answer to educational reform. We would basically feel and agree with Dr. Bennett that we should be looking at areas which would improve the whole area of desegregation and to improving education for our most disadvantaged.

Senator PELL. I have one other question. As you well know, the school year includes 180 days a year of vacation days, thus half the year is a vacation for our students. I am just curious about your reaction. Do you think the school year should be longer? I am talking of the objective of increasing educational time. This is presumably with the given salaries and would be increased proportionately.

But do you believe the school year should be longer, or should we continue to have half the year as vacation? Ms. Gallagher.

Ms. GALLAGHER. Well, Senator, you mentioned the word, the presumption, that the teachers and the other educators would be paid more. In South Carolina, under our Governor Dick Reilly, we passed the Educational Improvement Act and we increased our school year by five days, and there was somewhat of a pay increase. I would not consider the pay increase making up for the extra time.

The vacation time is not what a teacher really has. Most of the time you are taking extra classes, you are doing extra work with your students. I have had the opportunity to serve as class sponsor and other school activities. So there is an awful lot of extra time that you spend with students that are so-called vacation days and you are not in a true academic situation but you are in a learning environment.

So if you're talking about increasing the school year with actual academic school days, that is a question that is open.

Senator PELL. All right. I am talking from the viewpoint of the kids at school, half the year is a vacation.

Dr. Thomas, what is your thought?

Dr. THOMAS. I think the question can be addressed in the context of bringing education in line with what the economy is now. It's not a farm economy in the sense that it was when school was out in May and we had all summer off. I think .that that has to be looked at.

The whole question of quantity versus quality is involved here too. Just extending the year does not ensure that more education is going to take place. I think we'd have to look at that very, very carefully.

Now, there are some districts that have the 45-15 plan where you have what we call year-round schools. I think the jury is still out on whether it's of value or not. But I think that the quality is the significance of what is happening.

Senator PELL. Thank you.

Mr. McCully.

Mr. McCULLY. Senator, speaking on my personal beliefs and not necessarily representing NSBA, I think the key thing here is not necessarily more time but quality time on tasks. And I think that could be accomplished with some Federal aid programs and to enable teachers to utilize things that we know now by hard research data, such as the clinical teaching methods and those kinds of things and also some leadership academies for our administrators so that they can go in and actually evaluate teachers in a positive manner so that they can give more quality time on tasks. I think those are the two key things.

Senator PELL. Thank you.

Dr. Bennett.

Dr. BENNETT. Senator, we have tried to make very constructive use of summer school programs in our school district. Traditionally, better than a third of our students, mostly at-risk students, have attended summer school.

Regrettably, the Minnesota Legislature two years ago discontinued State funding for the summer programs. So what we're talking here about the need for and the benefits of an extended school year where people are paid more, in reality what is happening, at least in our State, is that there is a considerable retraction from that position.

Senator PELL. Mr. Marec.

Mr. MAREC. Mr. Chairman, basically our position is that before we talk about increasing the school year we ought to take a look at what we are currently doing with the amount of time we have. And I think it is a question of quality versus quantity. I think we are to the point where we ought to be allowing teachers to teach rather than constantly being interfered with by ringing bells, assemblies, shortened days for whatever programs there may happen to be.

We do feel, however, that if we take a look at restructuring schools and we start talking about delivering programs that meet students' needs, that in many instances specialized summer programs for students in at-risk categories have proven beneficial where we have seen them working in Ohio.

So I think it's a question of selectivity and quality rather than just saying if we'd just expand the school year from 180 to 200 or 220 days, that that's the answer. We don't believe that is.

Senator PELL. I would ask the staff to insert in the record at this point the number of school days in the school year of technologically advanced competitors in the world and see where we stand in that regard.

[Information supplied follows:]

AVERAGE LENGTH OF SCHOOL YEAR FOR ELEMENTARY AND SECONDARY EDUCATION (DAYS) OF SELECTED NATIONS

Nation	Average [1]
Canada	190
Democratic Republic of Germany	210
Federal Republic of Germany	165
France	185
Israel	216
Italy	213
Japan	243
Soviet Union	210
Sweden	180
United Kingdom	196
United States	180

[1] Average length of school year (days).

Source: Congressional Research Service.

Senator **Pell**. I am a little disappointed at the reply of all of you because I would have thought that half the year as a vacation is a little rich when you consider how far behind in educational achievement many of our kids are compared to the Japanese, German, British, etc.

I would turn to Mrs. Kassebaum.

Senator **Kassebaum**. Thank you, Mr. Chairman.

I would like to start with Mr. McCully, if I might, he being a fellow Kansan. I am pleased he is here presenting testimony for the National School Board Association. Having been a member of the school board for 18 years, you are well qualified to do so. That is an achievement, as most school board members don't survive that long anymore.

You spoke frequently in your testimony, Mr. McCully, about your concern that we might be detracting from some of the programs that are working well by having money going into the new magnet school proposal or the merit school proposal.

Do you see any way we can perhaps move some of the administration's proposals into existing programs in such a way that there can be a constructive amalgam of both?

Mr. **McCully**. Yes, Senator. I think one of the ways that we suggested is that the magnet schools basically for desegregation purposes could well be dovetailed into magnet schools for excellence, and in many cases those are probably in States one and the same.

There are some other programs, the Secondary School Act that I mentioned too, I think, that could also, if that were fully funded at $400 million, which is the authorization, I think that would take care of some of those concerns that the administration's bill speaks to.

Senator **Kassebaum**. I think you and Dr. Bennett too talked about the merit school program being limited to Chapter 1 schools. Is that correct?

Mr. **McCully**. I believe that my testimony suggested at least 50 percent of those funds go to Chapter 1 schools.

Senator KASSEBAUM. Yes.

Mr. McCULLY. And also, we are very concerned about, I think, one of the people who testified called that a prize. I think I am more concerned with schools, probably in my personal judgment, some of the schools that are doing excellent jobs are those that have the financial resources to do that. I question whether it is sound use of money to give them a prize when there are so many other schools that know what to do if they only had the resources to do it. My own school district is one of those.

Senator KASSEBAUM. Why do you think that, say, the El Dorado school district would be eliminated from consideration under the merit schools program?

Mr. McCULLY. Well, as I understand the proposal, it is to award those schools that have demonstrated meritorious achievement, either a one-time shot at increasing test scores or whatever. In the State of Kansas, school districts are also limited by State-imposed budget limitations, and I think that in itself would limit some schools, at schools in some States, from even spending the additional money without some concerns within the bill to take care of those.

Senator KASSEBAUM. Well, that is why I was interested in questioning Secretary Cavazos as to exactly how the criteria will be drawn up and what will be taken into consideration. If there is a way to look at innovation, a willingness to try some new directions and see some improvement from that, I don't know why it should be limited necessarily. I mean I would think anybody then should be able to qualify.

Now, the danger would be if there is some criteria that is going to be always slanted toward those that have the resources and obviously, with that, attract attention.

Mr. McCULLY. Senator, if I may, I think the money would be much better spent if it were allocated on a grant basis for those schools that have some plan for improvement if only they had the resources.

Senator KASSEBAUM. Thank you very much.

Dr. Bennett, you mentioned with respect to merit schools the Dade County plan. I think you said it offered more of an incentive than a prize. Could you elaborate on why you think that is a good program?

Dr. BENNETT. The program in Dade County, and by the way, programs exist elsewhere, including our school district, first of all begin by identifying schools in greatest need. In other words, there is no mystery about the schools, in our case, the school district is most interested in focusing on and improving.

Then second, we hold out the opportunity for additional funding for those schools. In the case of our school district, it goes to the school. In the case of Dade County, it actually goes to individuals in the school, individual teachers and principals. It's a direct reward to them to spend personally as opposed to on the school district itself.

My own preference is that it be spent on behalf of the school district rather than personally.

But in any event, the moneys actually flow when there is a demonstrated improvement. So again, the incentive is held out there, you know ahead of time that there is the availability of money if you perform. That is the way, I think, in which a program, a monetary program, can actually work as an incentive program rather than a random prize type program the way I fear that the legislation is structured.

In terms of actually crafting the legislation to accomplish that, I think a good step in the right direction is literally to change a single word on page 9, take that page 9, line 6, and if the administration thinks it's a good idea that States recognize the composition of the student body and other relevant factors, then the word in place of "may" should be "shall."

Senator **KASSEBAUM**. You think that might solve the problem?

Dr. **BENNETT**. Senator, I think that is a first step in helping to improve this legislation.

Senator **KASSEBAUM**. Thank you.

Mr. Marec, you had some of the same concerns about merit schools that I think nearly everybody expressed, and that is how you enhance local participation and incentive. Is that not correct?

Mr. **MAREC**. Yes, Senator Kassebaum.

Senator **KASSEBAUM**. Do you see Dr. Bennett's suggestion as being a step in the right direction?

Mr. **MAREC**. I think there are possibilities there with that. But I think more in terms of when I take a look at the merit school concept within S. 695, is the fact that a lot of the indices that are there basically are pretty traditional and, quite frankly, those schools that are already accomplishing things using those indices are successful, they will get the rewards.

The question is how do you get to the schools that are not doing it or, quite frankly, if we take a look at how are we going to prepare students to meet the challenges of the 21st century in terms of technology, in terms of the fact that the kinds of jobs that we have had in the past no longer exist, then to us at least that means going far beyond what is in the bill.

That is talking about going to the local level to try to restructure schools in such a way that we can reach what basically is perhaps that 50 percent of the students that we haven't been reaching even historically. And that is going to take something far beyond what this bill entails.

Senator **KASSEBAUM**. In this bill, even if we would change from "may" to "shall," you still have to consider the State educational agency. In States where you've got an educational agency that is innovative and aggressive, you would have a more successful effort. But some States will have to be guided and encouraged in the criteria that they would develop.

I think it's terribly important, and I certainly value the suggestions you make on how we could establish this in a way that it will work.

Dr. Thomas, I think your trust fund is an interesting suggestion. I would only say we are having a very hard time here with revenue.

Dr. **THOMAS**. I know.

Senator **KASSEBAUM**. And I can't see any real enthusiasm for an additional payroll tax.

Dr. **Thomas**. Senator, I would just comment by saying that I have to come here at least twice a year because our district is heavily impacted, as I indicated, and we get a substantial amount of money for the military kids to educate them. And it's a constant battle, which I understand. We certainly hope it wouldn't be, but it is.

We know it's a Federal obligation to deal with the impact aid kids, yet still it's always a battle to get the appropriate funding. And of course, I am speaking logically, and I understand where you sit and where the other Senators sit, you have to look at a lot of different factors when you deal with these programs.

When you constantly have a situation where the discretionary pie is constant but the competition is keen, the number of elements that are thrown into that competitive pot becomes very great, either we just have to deal with that as a frustration level or something has got to give. And I think that in my opinion, one of the ways, and I agree there may not be enthusiasm now, but I think the seed ought to be planted that there has to be a way.

Certain things are entitled. And we know that kids are going to be here. We think they're entitled to an education. We don't think that their education ought to be in the context of a lottery, well, we don't know how much you're going to get this year but we know you've got to learn how to read and do the other things that are necessary in a democracy. And we think there ought to be a way to ensure that moneys are available to support those programs that all of us believe should be supported.

And so we believe that the trust is a concept that ought to be explored. What the configuration of it is, I obviously cannot tell you what it might end up being. But I think it's a concept worthy of exploration by people in Washington.

Senator **Kassebaum**. Ms. Gallagher, you talked about alternative certification and your reservations about it. What do you think is the best way to attract young people into teaching today, particularly where we have shortages of minorities and math and science teachers? I am just amazed when I speak to high school groups today particularly seniors in high school, and ask if they are going on into teaching. And there are just very few hands go up today.

Ms. **Gallagher**. Senator, as a teacher and as a coach, I have an opportunity to be working with smaller groups of students at times. And the conversations that I have with these students and trying to encourage them to go into the field of education is that, one, they would like to have more money. And I think it is our society that has stated to them that that is what they want. They want to have jobs while they are in high school because they want to have cars and they want to have a good time.

I think we have to begin to instill in our young people the importance of other people, and not the material world. We have got to be able to tell them that teaching is a job and it is a respectful job. To many of them that sat through a class that they thought highly of a teacher, but there were other students in that class that did not and were disruptive. And they don't see the need to put up with that kind of behavior, make the low salary, and consider that a good job.

We have to bring respect back to teaching. We have to pay our teachers. It's very hard to listen to so-called vacation days being referred to as vacation days when your educators are out trying to pick up extra classes so that their knowledge base is better for their students.

If we want to attract the young people into education, we have to put the money into education, we have to pay our teachers, and we have to give them the respect that they deserve.

Senator **Kassebaum**. Thank you very much. I totally agree, and I assume everybody else does on the panel. Thank you.

Senator **Pell**. Thank you very much.

Senator Cochran.

Senator **Cochran**. Mr. Chairman, thank you. I had to be present at a rural development markup session and missed the testimony of these witnesses. But I do want to join you, Mr. Chairman, and the other members of the committee in thanking the panel for helping us get a perspective of the needs of education at the local level and what some of the real-life challenges are like in your areas and in the activities in which you are involved.

I am sure we will benefit and profit from the observations and comments you have made.

I understand that some of the concerns that I asked the Secretary about have been expressed by members of this panel, that some of the new initiatives that are being suggested might displace or take away from existing programs.

I just want to express some assurance to the panel members that this Senator at least is supporting those programs that are very important throughout the country, such as Chapter 1, but at the same time realizing the importance of emphasizing excellence in performance not only on the part of students and teachers but school managers, parents, who are beginning to realize, I think, more and more the importance of becoming involved in the education process.

In the Head Start program in our State, for example, we had recent hearings that really, I think, emphasized the importance of parental involvement as members of advisory committees and in other ways to try to make sure that this experience turns out to be a very constructive one for the students and the children who are involved.

So at all levels, I don't see anything wrong with calling attention to the need of an extra dimension of excellence in our performance. And that to me is what the Educational Excellence Act is all about.

To say that that is a negative influence in the process I think overlooks the fact that it is a small incremental additional request for authority to highlight the importance of excellence of performance, that just getting by isn't good enough any longer. And I think as a matter of national policy we need to say that. The President needs to say that. The Secretary of Education needs to say that just muddling along, just getting by, just reading the textbook is not good enough.

We need to be excellent if we are going to continue to provide leadership in this world of ours, to be competitive in the international marketplace. We are going to have to do a better job, and I think if we all feel that way, that we can do a better job and then go about developing ways to achieve that result, I think we are going to be better off for it.

So I have a very strong feeling coming from a family of educators. My father is retired as the county superintendent of public schools in Hinds County, Mississippi. My mother was a math teacher. And so growing up in that atmosphere, I have a feeling of sympathy and empathy for the problems of those who have devoted their lives and careers to education, to teaching, to giving really of themselves to others because the financial rewards aren't there, and I know that. They're better now than they were. But we still have some way to go there too.

But I think we can insist on excellence. I think we should. And so I am hoping that there can be a new look maybe by some who are suggesting that to be in favor of excellence is to turn your back on Chapter 1 or Head Start. I don't believe that. I think we can increase the support for those important programs and still insist on excellence of performance among teachers, administrators, and students, and that our country deserves no less.

Thank you, Mr. Chairman.

Senator **Pell**. Thank you very much.

Senator Simon.

Senator **Simon**. Yes. I apologize to you, Mr. Chairman, and particularly to Dr. Thomas, the witness from Illinois. I had the exhilarating experience of spending one hour on a plane on the runway this morning. That's always a great experience.

Let me just make a comment or two. Excellence in our schools is a goal we must pursue. It is not going to be done with one bill or with a half a dozen bills, it is going to take all of us working together. It's a mosaic with a lot of pieces. And maybe the legislation that the administration has proposed is part of those pieces.

It also means that we are going to have to devote resources to education, and we shouldn't fool ourselves on that.

The amendment that I introduced to the budget resolution, and I understand why people voted against it because an agreement had been entered into between the leaders of both parties and the President, but the amendment I introduced to take 1 percent of the defense budget, $3 billion, and put it over into education would have been about a 15 percent increase in education. My personal belief is that would have done more for the defense of this country than spending that money on more weaponry.

I think one of the things that we are going to have to make a determination as a Nation. You all have to help those of us behind this table to identify what our priorities are. If excellence in education really is a priority, then we need not only the legislation that has been talked about here, but we are going to have to devote more resources to education at the Federal level, at the State level in Illinois, and at the local level.

Excellence can't be just a word out here that we pay lip service to. We are going to have to do the hard tough work that is needed.

You mentioned, my colleague from Mississippi mentioned, that his mother was a teacher and his father was a teacher. The average teacher in the United States teaches six and a half years.

I spoke to a group of bank executives in Chicago recently, and I asked how many of them were teachers at one point, and probably about one out of six hands was raised, many were former teachers.

Teachers in Japan are paid approximately the same as lawyers, doctors, engineers. It should not surprise us that in Japan they are appealing to their most able young people to get into the field of teaching and staying there. Too often we are not doing that.

I am sorry I missed all this testimony and all the wisdom from my colleagues too. But I did get some reading done on the plane. [Laughter.]

Senator SIMON. Thank you, Mr. Chairman.

[The prepared statement of Senator Simon follows:]

PREPARED STATEMENT OF SENATOR SIMON

Mr. Chairman, I would like to welcome the Secretary of Education, Larry Cavazos, my colleague from Ohio, Senator Glenn and this distinguished group of witnesses. I look forward to their testimonies regarding the Educational Excellence Act and the Department of Education's initiative to reduce defaults in the Stafford Student Loan Program.

I would also like to welcome a fellow Illinoisan, Dr. Charles Thomas. Dr. Thomas is the Superintendent of the North Chicago Elementary School District No. 64 and the current Chairman of the Federal Policy Commission for the American Association of School Administrators. He is also the past president of the National Association of Black Educators and a nationally recognized leader in education. I am very pleased to have him here today.

This country was founded on the idea that we ought to try and develop the full potential of every one of our people. I believe we all share the dream that some day our educational system will provide the tools to enable every child to reach their full potential. This dream is not fantasy. We have the tools, we have the committed educators, some of whom are here today, to realize the potential of our educational system. We have many existing programs that work, but have suffered from severe underfunding. We should not discard proven programs. I believe in the potential of the existing educational system and ask my colleagues to join me in continuing to press for increased funding and improved curricula.

I believe that President Bush's education initiative is well-intended. I also believe that we have existing programs that are capable of achieving better results. We get what we are willing to pay for. President Bush has shown a sincere interest in education. We cannot, however, accept the Educational Assistance Act as the final word on educational reform. This is a first step, a platform for discussion.

I would also like to recognize Secretary Cavazos' efforts to reduce defaults in the Stafford Student Loan Program. The Secretary has shown that he is serious about reducing loan defaults. His aim, however, is slightly misdirected. To get at the root of the loan default problem, we must identify where the highest default costs are taking place rather than simply where the highest default rates exists. Reducing institutional rates may not necessarily reduce our enormous default obligation. A National Student Loan Data System will help significantly in fully understanding the loan problem and where the largest costs are occurring.

Secretary Cavazos has consulted with members of Congress and leaders in the higher education community in formulating these rules. I believe that he has included many of our suggestions. We still have work ahead, but I believe that these rules are a significant improvement over the department's previous efforts. We cannot, however, put this issue to rest just because we have made modest improvements.

I am pleased to be part of this discussion regarding education. I want to thank the Secretary and all of the participants for taking the time to present their views. I look forward to our continuing efforts to improve the quality of our educational system.

Senator PELL. Thank you very much indeed. And I thank the panel.

We will now turn to panel number two and ask them if they would come forward: Dr. Calvin Burnett, Dr. James Flippin, Mr.

Frank Cammarata, Mr. Terry Johnson, Mr. David Irwin, and Mr. Herb D'Arcy.

We are under some time pressure because of the caucuses. So again everybody will be limited to their five minutes.

I think the last time we went from left to right. This time we will go from right to left. By coincidence the man on the extreme right is from my home State of Rhode Island.

Welcome, Mr. D'Arcy.

STATEMENT OF HERB D'ARCY, DIRECTOR OF FINANCIAL AID, PROVIDENCE COLLEGE, PROVIDENCE, RI, ON BEHALF OF NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. D'ARCY. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, it is indeed a pleasure to appear before you and have the opportunity to discuss a number of legislative proposals which are considering that affect the student aid programs.

I am here today in two capacities: first, as director of financial aid at Providence College, and second, as a representative of the National Association of Student Financial Aid Administrators.

Given the time constraints, we have submitted our written testimony for the record and I will try to comment briefly on two general issues, list the need analysis issues that NASFAA supports, and then try to cover two need analysis changes contained in S. 568 which are of concern.

First, allow me to commend Secretary Cavazos for his default reduction initiative. We believe the Secretary has been responsive to a number of critical issues raised by the education community, and the reaction of the majority of NASFAA members has been supportive.

There are concerns regarding some of the technical provisions and how they will be implemented. But in general, we feel these regulations constitute a significant step forward in resolving the default problem.

In Rhode Island, we have particular concern about the accuracy of the cohort default data. For example, Rhode Island College, a four-year public institution that enrolls large numbers of low-income and older students, is reported to have a 25 percent cohort default rate. Yet our Rhode Island higher education assistance authority indicates that their default rate is only 9 percent, and to the best of their knowledge has never exceeded 11. So we are very concerned about these inconsistencies and the implications that they have and the potential embarrassment for some of the schools in Rhode Island.

The second general issue is the Educational Act of 1989, which includes the educational objectives of the Bush administration. We generally support all of these initiatives, but have some concern regarding the exclusion of need in the criteria for the proposed national science scholars program. Until there are sufficient need-based funds for all eligible students, it would be best to direct new resources toward needy students who are enrolled in appropriate science programs.

I would direct the remainder of my comments to the need analysis formula changes that are contained in S. 568. Because of the limited time, I will simply list the six issues detailed in our written testimony which NASFAA supports and feels are important to insure that the system operates correctly and with improved efficiency.

They are: (1) The change in the independent student definition; (2) the adjustment to the number of family members in postsecondary education; (3) the reduced taxation of student earnings from 70 to 50 percent; (4) reinstating aid offices' discretion for Pell Grants; (5) the standardized treatment of veterans' benefits, and (6) the treatment of award-year work-study earnings.

As I mentioned, there are two issues addressed in S. 568 for which NASFAA is not recommending change at this time.

First, the Senate bill includes a provision to address the potential inclusion of income earned during the base year as an asset for purposes of determining the need in the Title IV programs. While we recognize the problem and appreciate the attempt to address it, we do not believe it can be solved with the proposed legislative language. The actual language in the bill, if implemented, could have unintended consequences. Other, less complicated and less costly solutions may be available.

Second, the Senate bill excludes the principal place of residence, family farm and family-owned and managed small business from asset consideration in all Title IV programs for families whose adjusted gross income is less than or equal to $30,000. NASFAA believes the Congress should very carefully evaluate the effects upon families with differing financial circumstances before automatically eliminating categories of assets from the need analysis for the Title IV programs.

While we recognize that this is a particularly sensitive issue frequently voiced by constituents, we believe that change should be made only after the redistribution effects and the cost implications have been thoroughly studied.

Currently, NASFAA and other representatives from the postsecondary education community are attempting to examine a number of other approaches that will, hopefully, provide an equitable yet more publicly acceptable solution to the treatment of assets in the assessment of the ability to pay.

While this work is far from complete, it is an issue that is currently being examined in preparation for the forthcoming reauthorization, and we will be happy to share the results of these studies with you in hopes that we can achieve a simpler and more balanced solution.

Before concluding, I would like to make one additional comment. The development of the needs analysis and delivery systems is well under way for the 1990–91 award year. Therefore, changes made at this point could cause serious disruption in services to students and institutions. It is not inappropriate, however, to adopt these changes now so that they can be implemented for the 1991–92 award year. It is important to establish a timetable or schedule of review that will allow changes to occur in a timely way that will not disrupt the extremely complex logistics involved in the delivery system.

In closing, let me express my sincere appreciation for the continued support and genuine interest of this subcommittee in the educational needs of our citizens. Again, I appreciate the opportunity to appear before you today to discuss these issues, and I would be happy to answer any questions that you might have.

[The prepared statement of Mr. D'Arcy (with an "Application for Federal Student Aid" form attached) follows:]

PREPARED STATEMENT OF HERBERT J. D'ARCY ON BEHALF OF THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman, Members of the Subcommittee: It is indeed a pleasure to appear before you and to have the opportunity to discuss a number of the legislative proposals which you are considering that affect the student aid programs. I am here today in two capacities--as Director of Financial Aid at Providence College, and as a representative of the National Association of Student Financial Aid Administrators (NASFAA).

While most of my remarks will be directed toward the need analysis formula changes that were contained in S.568, I would like to comment briefly upon the default regulations published by the Department of Education on June 5 and upon the education initiatives advanced by the President Bush which were introduced by Senator Kassebaum as S.695.

Default Regulations

First of all, allow me to commend Secretary Cavazos for developing a much more reasonable set of regulations to achieve his default reduction initiatives then were advanced by his predecessor last fall. While we are still concerned about some of the more technical provisions contained in the regulations and the manner in which they will be implemented, we do believe the Secretary has been responsive to a number of the critical issues raised by the education community and has advanced a more even-handed approach to address a very complicated and sensitive issue. Our review of the regulations is still underway, however, the initial reaction from the majority of NASFAA members has been generally supportive. In addition, it appears that many of the concepts embodied in the regulations are similar to those included in S.568.

The Secretary has proposed a number of legislative initiatives to aid in default reduction, most of which we believe should be dealt with during the Reauthorization process, however, it is our belief that one of these proposals should be given serious consideration at this time. The Secretary's proposal which affects the certification of schools for program eligibility after loss of accreditation would prevent problem schools from "shopping around" for accreditation. While this is certainly not a practice that involves most institutions, it is one that appears to have been utilized by a limited number of unscrupulous schools. As such, we believe that implementing this provision would strengthen the important role of accrediting bodies and provide authority for the Department to deny eligibility certification or recertification to institutions who have had their accreditation withdrawn, or otherwise terminated, for cause during the preceding 24 months.

While NASFAA believes that these regulations will certainly help to reduce the incidence of defaults, it is important to note that significant improvement will not be realized in the short term, but rather will occur gradually over time. While we generally support these initiatives, we continue to believe that the increasing reliance upon loan funds particularly for low income disadvantaged students early in their educational careers is a greater problem that contributes to the incidence of default. As such, we would strongly encourage the Congress and the Administration to significantly increase funding for federal grant programs to address this more fundamental issue.

Bush Administration's Education Initiatives

The second issue we would like to address is contained in S.695, the Educational Excellence Act of 1989, which includes the education initiatives advanced by the Bush Administration. Many of the proposals which are designed to raise educational achievement, to create safe and drug-free school environments, to reduce dropout rates, and to reward and recognize outstanding teachers, are certainly worthwhile. Similarly, the proposed National Science Scholars Program advances a number of commendable purposes. This program, however, provides a departure from the federal government's current policy position of awarding scholarship grants to undergraduate students on the basis of demonstrated financial need. While we certainly believe that it is important to promote and encourage students to excel in the hard sciences, it is also our belief that under this program, the majority of the $10,000 awards will be given to students who are from families that have the ability to pay for all or a significant part of the student's postsecondary education. While the amount proposed for this program overall is fairly insignificant in relationship to the total federal expenditures for student assistance programs, it nevertheless represents an expenditure of scarce federal funds that could be directed, through grant programs, towards needy students who are pursuing these subject areas.

Need Analysis Issues

I would like to direct the remainder of my comments to the need analysis formula changes that were contained in S.568.

As I'm sure you know, during the Reauthorization of the Higher Education Act of 1965, the Congress made a number of changes to the federal student assistance programs. Included in those changes was the decision to codify in law the actual need analysis formulas used to determine not only a student's eligibility for the Pell Grant Program, but also those formulas which must be used to evaluate a student's financial need for the campus-based and Stafford Loan programs. The decision to codify in detail both methodologies was primarily in response to two issues. The first was to impose limitations on the Department of Education and Administration officials who had attempted to modify or manipulate the Pell Grant formulas for their own budgetary or policy goals over the past several years. The second was to place the responsibility for determining the amount of federal student assistance that a student receives directly under the control of the elected members of the Congress who have the responsibility for determining both the amounts of money expended annually for these programs, and the types and characteristics of families and students who should receive such assistance.

Under this new structure, the actual responsibility for developing and modifying the need analysis formulas used to distribute Title IV aid has been placed directly under the control of the House and Senate education authorizing committees, with annual comment, advice, and recommendations by the National Advisory Committee on Student Financial Assistance. NASFAA commends the Subcommittee for including provisions in S.568, as well as in S.2647, to address this responsibility. We are pleased that Congress is taking steps to review and monitor the need analysis system, and to ensure that needed changes are enacted in timely basis to keep the system sensitive and responsive to the needs of students.

NASFAA believes there is an important and pressing need to take action on technical amendments to the need analysis methodologies. We believe the changes we are recommending would improve the efficiency of the methodologies and would ensure that the system operates correctly and appropriately. Since most of these issues are addressed in S.568 and were also contained in S.2647 and H.R.4986 last year, we believe that there is a strong consensus that these changes are needed. Most were also recommended by the Advisory Committee on Student Financial Assistance as needed changes.

I would like to offer brief comments on the six issues on which NASFAA is recommending changes. I will also comment on the two additional provisions addressed in S.568 for which NASFAA is not recommending modifications at this time.

Independent Student Definition The first issue concerns the independent student definition. We believe that most would agree that this definition needs additional refinement. The modifications contained in

S.568 would go far in addressing some of the problems that have been uncovered in the implementation of the current statutory definition.

The combination of grandfathering students considered to be independent under the statutory definition and modifying the years for which self-sufficiency must be demonstrated will help to simplify the structure of the application form thereby making it easier to complete, a goal that we know is supported by your Committee. The current statute provides that the demonstration of self-sufficiency is tied to the two calendar years preceding the award year in which the initial award is granted. This has the unintended effect of steadily increasing the number of questions which must be included on the student aid application, thereby increasing the difficulty students have in completing it. The 1990-91 draft Application for Federal Student Aid (AFSA), which was distributed by the Department for comment in early February, clearly illustrates the complexity and unnecessary additional questions that must be included to accommodate the current definition. A copy of the first page of the draft AFSA is appended to our testimony for your review.

The exclusion of student aid from the $4,000 resource threshold avoids reclassifying numbers of otherwise dependent students as independent (particularly at high cost institutions) on the basis of the receipt of student aid. This change will help to place all students, whether aid recipients or non-aid recipients, on equal footing with regard to demonstrating self-sufficiency.

In addition to these changes, NASFAA believes that one additional change is also necessary. We believe that graduate/professional students should be exempt from declaring that they will not be claimed as a dependent. The requirement that graduate students not be claimed as exemptions adds questions to the application form without significantly changing the number of otherwise dependent students who would be considered independent. Data from the College Scholarship Service (CSS) and the American College Testing Program (ACT) suggest that a very small percentage of their filers are graduate students who would become independent based on this change. These statistics do not represent the programs as a whole, but do provide an indication of the effect of the change on a portion of the population. We believe that this change would therefore more clearly carry out the policy goal that Congress intended when this definition was modified during the last Reauthorization.

Number of Family Members in Postsecondary Education The second issue relates to the number of family members included in the number in postsecondary education for purposes of calculation of the expected family contribution. The Senate provision requires that, to be included in this number for all Title IV programs, parents and the student's spouse must be enrolled in a degree or certificate program.

This issue is particularly important as it relates to the Congressional Methodology because the parental contribution (for dependent students) and family contribution (for independent students) is divided by the number in postsecondary education, thus significantly reducing the expected family contribution when more than one family member is enrolled. While this is an appropriate adjustment for family members who are seeking degrees or certificates, it is not appropriate for individuals who are simply taking personal enrichment or recreational classes.

For the Pell Grant Program, a sliding percentage is used based upon the number in postsecondary education. While the impact of non-degree/certificate seeking family members is less significant under the Pell Grant formula, it still can result in an inappropriate reduction of the family contribution.

We support the language in the Senate bill. This would ensure fair and equitable treatment of all students, regardless of the student aid program for which they are eligible and regardless of who in their family is attending postsecondary education if they are in fact pursuing a legitimate, recognized degree or certificate program.

Taxation of Dependent Student Earnings The third issue relates to the taxation of dependent student earnings under the Congressional Methodology. The Senate bill includes language modifying the current 70 percent assessment rate to not less than 50 percent.

Testimonials from numerous students from across the nation suggest that the current taxation rate is too stringent. NASFAA concurs with the students and thus supports the Senate language. This is also an item for which NASFAA members have reported making numerous adjustments using professional judgment authority, in order to establish more reasonable expected contributions from their students' earnings.

NASFAA continues to believe that an underlying principle of need analysis is that students should contribute to their postsecondary education to the extent they can. Establishing a minimum contribution supports this concept and also recognizes that students have certain expenses associated with their jobs. There are also circumstances under which individual students or groups of students do not have the same level of job-related expenses and may be able to contribute more than the 50 percent minimum to their education. This modification, however, would provide aid administrators with flexibility in determining the assessment rate, when adjustments are appropriate.

Financial Aid Administrator Discretion The fourth matter relates to the statutory authority provided to financial aid administrators to make necessary adjustments in cost of attendance or expected family contribution figures based upon documentable special circumstances. The Senate bill reinstates professional judgment authority for the Pell Grant Program that was rescinded in the FY-89 Labor/HHS/Education appropriations measure. In addition, the bill specifies three examples of an appropriate professional judgment circumstance, those being adjustments for independent students with dependents, adjustments for dislocated workers, and adjustments for displaced homemakers.

NASFAA supports the language identifying appropriate adjustments. NASFAA also supports the premise behind the reinstatement of this authority for the 1989-90 award year. However, given the potential timing of enactment of this provision, we are not certain that it is a necessary change to make at this point in time. Since the Department of Education has procedures in place for the 1989-90 award year to deal with special circumstances for the Pell Grant Program, and since the repeal of this authority was only for the 1989-90 award year, we believe that any change at this time would create additional and unnecessary confusion on the part of students and aid administrators. However, we sincerely hope that this Subcommittee will continue to dissuade the Appropriations Committee from making any such changes in this area in the future without the concurrence of the Authorizing Committee.

We believe that the reason professional judgment authority was rescinded for the Pell Grant Program was based upon the unsubstantiated estimate of costs associated with this authority that was advanced by the Education Department. We believe that the Department assumed that aid administrators would only use this authority to make more students more eligible. In reality, in discussing this matter with financial aid administrators, we would observe that most of them are not only using this authority only in circumstances which warrant a special review, but that in many cases the end effect has been to reduce the student's eligibility rather than to increase it.

NASFAA maintains that there will be no, or certainly minimal, cost savings realized by this change. In fact, analyses done as part of the recent Title IV Quality Control Studies (1985-86) showed that the overwhelming number of discretionary changes resulted in a reduction of need, and therefore, awards. This is the only available proxy for likely behavior under the current statute. NASFAA believes that the use of aid administrator's discretion will not result in any significant change in program costs, due to the ability of aid administrators to review and adjust awards downward, as well as upward, based upon all relevant facts.

Veterans Educational Benefits The fifth issue concerns the treatment of veterans educational benefits. The Senate bill provision requires all veterans educational benefits to be included in the determination of need for all Title IV programs. This modification would standardize the treatment of these benefits that is currently governed by both law and regulations and varies by program. Such an approach would simplify the current complicated administrative procedures which result in potential inconsistent handling of students who receive these benefits. NASFAA supports this change.

Treatment of Award Year Work-Study Earnings The sixth issue relates to the treatment of need-based earnings during the award year. The provision in the Senate bill clarifies that when income from need-based employment (including non-work-study or both) is in excess of the student's need by more than $200, continued employment may not be subsidized with work-study funds. Currently, the statute provides that all income, whether need-based or non-need-based, must be considered in making this determination. This modification is necessary to acknowledge the use of base year income in the Congressional Methodology analysis and to clarify that only need-based employment must be monitored for College-Work Study employees. NASFAA supports this clarification.

As I mentioned previously, there are two additional issues addressed in S.568 for which NASFAA not recommending changes at this time. These provisions relate to the double counting of income in asset computations, and to the treatment of non-liquid assets. NASFAA believes that these issues should be dealt with in the context of the next Reauthorization.

Double Counting of Income in Asset Computations The Senate bill includes a provision to address the potential inclusion of income earned during the base year as an asset for purposes of determining need for the Title IV programs. While we recognize the problem and appreciate the attempt to address it, we do not believe it can be solved through this proposed legislative language. The actual language included in the bill, if implemented, could have unintended consequences, inherently benefitting students who did not accumulate savings from their base year earnings. The proper identification of the students affected by this problem, accurate determination of the source of a student's savings, and appropriate treatment of these cases is very difficult without adding additional questions to the application form. This situation may best be addressed by the financial aid administrator's ability to make adjustments when warranted. While returning to the practice of using estimated year income in the student computation is certainly the easiest way to address this problem, it is probably not a solution that can be adopted without significant cost implications.

Treatment of Non-liquid Assets The Senate bill excludes the principal place of residence, family farm, and family-owned and managed small business from asset considerations in all Title IV programs for families whose adjusted gross income is less than or equal to $30,000.

NASFAA believes the Congress should very carefully evaluate the effects upon families with differing financial circumstances before automatically eliminating categories of assets from the need analysis for the Title IV programs. While we recognize that this is a particularly sensitive issue frequently voiced by constituents, we believe that changes should be made only after the redistributional effects and cost implications have been thoroughly studied. Currently, NASFAA and other representatives from the postsecondary education community are attempting to examine a number of other approaches that will hopefully provide an equitable yet more publically acceptable solution to the treatment of assets in the assessment of ability to pay. One alternative to provide some further sensitivity to the programs would be to exclude various percentages of non-liquid family-owned assets under a formula which relates to income. Other approaches would be to adjust the current protection allowances, or to impute asset levels for different families in similar circumstances. While this work is far from complete, it is an issue that is currently being examined in preparation for the forthcoming Reauthorization. We will be happy to share the results of these examinations with you in hopes that we can achieve a simpler and more balanced solution.

Before concluding, I would like to make one additional comment regarding the timing of these changes. The development of the need analysis and delivery systems is well underway for the 1990-91 award year, therefore, changes made at this point could cause serious disruption in services to students and institutions. It is not inappropriate, however, to adopt these changes now so that they can be implemented for the 1991-92 award year.

To assist in the regular evaluation and updating of the need analysis methodologies, NASFAA would recommend the establishment of an annual schedule for review. A significant amount of advance notice is necessary due to the complicated process. Therefore, it is our suggestion that recommended changes be reviewed annually during the period May through August and enacted early in the fall, such as by the end of the fiscal year. Under this schedule, changes that are to be made for the 1991-92 award year would be reviewed during the late spring and summer of 1989, and would be enacted not later than September 30, 1989. Such a schedule would therefore enable the Department of Education and others involved in the delivery of student aid dollars to make the necessary adjustments in a timely manner.

In closing, let me express our sincere appreciation for the continued support and genuine interest of this Subcommittee in the educational needs of our citizens. Again, I appreciate the opportunity to appear before you today to discuss these important issues. I would be happy to answer any questions you may have.

Application for Federal Student Aid

1990-91 School Year

FORM APPROVED
OMB NO.
APP. EXP.

U.S. Department of Education
Student Financial
Assistance Programs

WARNING: If you purposely give false or misleading information on this form, you may be fined $10,000, sent to prison, or both.

"You" and "your" on this form always mean the student who wants aid.

Section A: Yourself

1. Your name
   Last — First — M.I.

2. Your permanent mailing address (Mail will be sent to this address. See page x for State/Country abbreviation.)
   Number and Street (Include Apt. No.)
   City — State — ZIP Code

3. Your title *(optional)*
   - ☐ Mr.
   - ☐ Miss, Ms., or Mrs.

4. Your State of legal residence
   State

5. Your social security number

6. Your date of birth
   Month — Day — Year

7. Are you a U.S. citizen?
   - ☐ Yes, I am a U.S. citizen.
   - ☐ No, but I am an eligible noncitizen. *(See the instructions on page x.)*
     A
   - ☐ No, neither of the above. *(See the instructions on page x.)*

8. As of today, are you married? *(Check only one box.)*
   - ☐ I am not married. (I am single, divorced, or widowed.)
   - ☐ I am married.
   - ☐ I am separated from my spouse.

9. Check the box that best applies to you for the 1990-91 school year.
   - ☐ 1st *(never previously attended college)*
   - ☐ 1st *(previously attended college)*
   - ☐ 2nd ☐ 3rd ☐ 4th
   - ☐ 5th or more undergraduate
   - ☐ first year graduate/professional (beyond a bachelor's degree)
   - ☐ Continuing graduate or professional

10. Will you have your first Bachelor's degree before July 1, 1990?
    ☐ Yes ☐ No

Section B: Student Status

		Yes	No
11.	a. Were you born before January 1, 1967?	☐	☐
	b. Are you a veteran of the U.S. Armed Forces?	☐	☐
	c. Are you a ward of the court or are both your parents dead?	☐	☐
	d. Do you have legal dependents (*other than a spouse*) that fit the definition in the instructions on page X?	☐	☐

If you answered "Yes" to any part of question 11, go to Section C and fill out the gray and the white areas on the rest of the form. Skip questions 12 through 15.

If you answered "No" to every part of question 11, and you are:

- Unmarried now (single, divorced, separated, or widowed) and will be an undergraduate student in 1990-91, answer question 12. (Skip question 15.)
- Married now or will be a graduate/professional student in 1990-91, answer question 15. (Skip questions 12 through 14d.)

Unmarried Undergraduate Students Only

12. Did your parents claim you as an income tax exemption?

	Yes	No
. . . In 1988?	☐	☐
. . . In 1989?	☐	☐

If you answered "Yes" to either year in question 12, go to Section C, and fill out the blue and the white areas on the rest of the form. (Skip questions 13 through 15.)

If you answered "No" to both years in question 12, answer question 13 below.

13. **Beginning with the 1987-88 school year, you first received Federal student aid...*(Check only one box: a, b, c, or d. See instructions on page x.)***

a. ☐ In the 1987-88 school year. (Answer 14a below. Skip questions 14b,14c, and 14d.)

b. ☐ In the 1988-89 school year. (Answer 14b below. Skip questions 14a, 14c, and 14d.)

c. ☐ In the 1989-90 school year. (Answer 14c below. Skip questions 14a, 14b, and 14d.)

d. ☐ In neither a, b, or c. (Answer 14d below. Skip questions 14a, 14b, and 14c.)

14a. Did you have total resources of $4,000 or more, not including parents' support?

	Yes	No
...In 1985?	☐	☐
...In 1986?	☐	☐

14b. Did you have total resources of $4,000 or more, not including parents' support?

	Yes	No
. . . In 1986?	☐	☐
. . . In 1987?	☐	☐

14c. Did you have total resources of $4,000 or more, not including parents' support?

	Yes	No
. . . In 1987?	☐	☐
. . . In 1988?	☐	☐

14d. Did you have total resources of $4,000 or more, not including parents' support?

	Yes	No
. . . In 1988?	☐	☐
. . . In 1989?	☐	☐

- If you answered "No" to either year in question 14a, 14b, 14c, or 14d, go to Section C and fill out the blue and the white areas on the rest of the form.
- If you answered "Yes" to both years in question 14a, 14b, 14c, or 14d, go to Section C and fill out the gray and the white areas on the rest of the form.

Married or Graduate/Professional Students Only

	Yes	No
15. Will your parents claim you as an income tax exemption in 1990?	☐	☐

If you answered "Yes" to question 15, go to Section C and fill out the blue and the white areas on the rest of the form.

If you answered "No" to question 15, go to Section C and fill out the gray and the white areas on the rest of the form.

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Senator PELL. Thank you very much indeed. As you may have heard, Secretary Cavazos spoke to the problem you mentioned about the statistics, and he gave us the assurance that the regulations would not be put into effect until there had been a reexamination of the database.

Mr. Irwin.

STATEMENT OF DAVID M. IRWIN, PRESIDENT, WASHINGTON FRIENDS OF HIGHER EDUCATION, SEATTLE, WA, ON BEHALF OF NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES

Mr. IRWIN. Thank you very much, Mr. Chairman.

My name is Dave Irwin, and I am from the State of Washington. I am president of the Private College Association. Mr. Chairman, I have written comments that I would like to have incorporated into the record, with your permission.

It is always a pleasure to appear in front of you, Mr. Chairman, and I enjoyed serving with you on the National Commission on Student Financial Assistance. I was a U.S. Senate appointment a few years ago when we worked on the reauthorization act, and had a great opportunity to work with your fine staff. So I really appreciate that.

I am here to talk about some issues, and I am sitting here thinking to myself, wouldn't you know that I am going to have the opposite view from the man from Rhode Island about the issue of home equity. But I do want to talk about a couple of issues that we see that might be improved on in S. 695. And a lot of those come from your S. 568, which was the default bill.

And I encourage you and thank you for doing that default bill because I think it was your bill that probably forced some real action on the part of the Secretary. That is very important.

I think that we in the West are very happy to see the spirit of cooperation that is reflected here in the U.S. Senate by Senator Pell and Senator Kassebaum introducing this bill. It is a good initiative for the "Education" President, President Bush, and we are quite encouraged by that movement.

One of the things that I did want to point out in our sector of higher education, we have around 2.6 million students in the private sector of higher education in the State of Washington—or in the United States. In the State of Washington we have about 40,000. And it is the circumstance that right now today we receive from Pell Grants, SCOG, about $1.186 million. But in addition to that, we also spend $3 billion of our own resources, of our own dollars, on needy students, investing in them, investing in their future that they have at our colleges and universities. I wanted to point that out because, I think, that is a major investment on the part of the private sector.

In addition to that, the major issues that we would like to see included are some of the issues that you talked about in your original bill, S. 568. We would really like to see the inclusion of home equity for students and parents whose AGI is around $30,000. Out West we feel pretty particularly acute about that issue, particularly as far as farm kids are concerned.

In our State, although you know us for our airplanes, our major economic impact is still wheat, trees, and apples. So we are very concerned about the ability of farm children to be able to attend college and take into consideration their home equities and their farm investments. And that is not done right now, and we have been very concerned about that in our State particularly. And, I think, throughout the Midwest and most of the West that is an issue.

So the other thing we were thinking about on the $30,000 AGI, we were thinking that a lot of families, particularly farm families, have a couple of kids in college at the same time. So we might suggest that perhaps you might, if you are willing to look at this, you might be able to add another 10 percent, or a $33,000 AGI for a parent that might have two children in school as far as the AGI requirement is concerned.

We are also, on the Stafford Loan, encouraging the removal of nonliquid assets from the Stafford Loan Program. We feel that that program has not helped middle-income students at this point. The need-based guaranteed student loan isn't doing that. And we feel that if you include some of the middle class back into that program, you might in the out years significantly reduce the current default rates.

As far as the Secretary's default program is concerned, we are very supportive and encouraged by the Secretary's default program. But in our sector of education we think there is a real quality issue involved here, and that quality issue is that we feel that anybody that receives student aid ought to at least have a GED or high school diploma. It only makes sense to us that we encourage people to accomplish high school, with the big drop-out rates that we have in this country—25 percent of the kids in the Nation drop out of school.

We have to have some drive to keep those young people in school and one of them we suggest might be the fact that they should have at least a GED or some kind of a high school diploma in order to receive Federal funds. I think it would help quality, and we think it would help quality dramatically.

On another subject, Mr. Chairman, I wanted to mention a couple of other concerns that we have. One of them deals with the Kennedy bill. A lot of us throughout the country have passed savings bonds programs. They encourage through the sale of bonds, forced savings bonds. The State of Washington, the State of Illinois, the State of Rhode Island, many of us have these kinds of programs.

The difference between our bills in the States and the bill that is passed in the U.S. Senate by the Congress, Senator Kennedy's bill, which we really appreciate him doing because it is a real encouragement to savings, is the fact that we have an exclusion of $25,000 out of the needs analysis system, which encourages people to save. It doesn't make any sense in our mind to have someone save to go to college or save for their children and then penalize them for the dollars that were saved.

So we are suggesting that perhaps the Senate and the House might take a look at the possibility of putting those in line with so many of the State programs and include that $25,000 hold-harmless, as far as the saving programs are concerned.

I know that most of our States, we modeled our program, I think, after the State of Illinois, and they have that in their programs. I know Rhode Island does. I think there are about 13 States that have that kind of language in their programs.

Finally, in closing, I did want to mention another concern that we have, and that is, filling out the FAF. We see happening more and more throughout this Nation that the parent of the student is not filling out the FAF, someone else is being hired to do that. And we feel that if someone else is filling out that financial aid form, then it ought to be that person that puts their name on the form along with the student or the parent that is signing the form.

We feel that it is very similar to the Internal Revenue Service recommendation that if a CPA fills out your tax return, then they should sign it. We feel that at least then if there is something wrong with that form, we will be able to identify the person that filled the form out and be able to measure how big an abuse this might potentially be.

In closing, I want to thank you for your leadership on this committee and for your introduction of S. 695. I think it's terrific and it's a good start. Thank you so much.

Senator SIMON [presiding]. We thank you, Mr. Irwin.

[The prepared statement of Mr. Irwin follows:]

PREPARED STATEMENT OF DAVID M. IRWIN ON BEHALF OF THE NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES

Mr. Chairman, and members of the Committee:

I am David Irwin, president of the Washington Friends of Higher Education, the association representing independent colleges and universities in the State of Washington. I am particularly interested in the issues being discussed today; and have had the pleasure to serve with you Mr. Chairman on the National Commission on Student Financial Assistance, and work with your fine staff as we prepared for the last reauthorization.

I am here today to testify on behalf of the National Association of Independent Colleges and Universities (NAICU). NAICU is an organization of more than 830 independent colleges and universities across the country, serving more than 2.6 million students. NAICU is aware that this committee has many important issues to address at this hearing, therefore, I would like to emphasize two areas of concern: changes necessary in the analysis of a student's need for federal student aid to allow working Americans with a modest income to qualify for assistance; and the future and integrity of the Stafford Loan program.

My colleagues on this and the previous panel are addressing many aspects of President Bush's education initiatives, as introduced by you, Mr. Chairman, in a bipartisan spirit with Senator Kassebaum. NAICU's members are encouraged by the President's desire to become the "Education President," and we offer our support in that effort. S. 695 is a good start toward achieving that goal, although we were disappointed that the President had not proposed budgetary increases for the federal student aid programs that have been proven to work in serving needy students, especially the grant programs -- Pell, Supplemental Educational Opportunity Grants (SEOG), and State Student Incentive Grants (SSIG). We must continue to work toward our common goal of strengthening education in this country, and providing students with access to our colleges and universities. We hope that the changes we recommend in this testimony could be used to amend and strengthen S. 695.

Each year, the student aid system delivers billions of dollars of federal, state and institutional aid to millions of students, opening the door to opportunity. The array of programs you have been so instrumental in establishing are critical to the students we serve. More than half of all full-time undergraduates who attend independent colleges qualify for some type of federal, need-based financial assistance. From a combination of Pell Grants, SEOG, and College Work-Study (CWS), students attending independent colleges in 1988-89 received an estimated total of $1.186 billion .

In addition, independent colleges and universities provide a significant amount of student financial assistance to needy students from their own resources. From 1980 to 1987, independent colleges increased their student aid budgets for undergraduate students from $939 million to $2.335 billion, an increase of 149 percent. Today, that figure is approximately $3 billion. It is on behalf of these needy students in my state and the nation that

I appeal to you today. We need to increase opportunities for students whose families make a modest income so that they may attend the college or university that best serves their needs and aspirations. We have some recommendations on how to achieve that expansion of opportunity.

My colleagues from the National Association of Student Financial Aid Administrators (NASFAA) have addressed some of the technical changes needed in the analysis, and we agree with them on several points. We agree with NASFAA's recommendations that would: tighten the independent student definition to close the loopholes and simplify the application process; include the parent's education expenses in the analysis of the student's need only when parents are enrolled in a degree program; lower the dependent student income assessment rate from 70 to 50 percent; and standardize the treatment of veterans benefits. Until we all have a chance to review, discuss, and participate in the reauthorization of the Higher Education Act, these are important interim changes for the 1991-92 academic year. We will have more extensive proposals on the student aid programs to offer at that time.

The area of greatest interest to us, however, involves changes in the treatment of assets such as homes, family farms, and small businesses. S. 568, as passed by the Senate, makes some very necessary changes, but does not go far enough. Mr. Chairman, we applaud this committee's attempt to ensure that scarce federal dollars are directed to students who need help with school expenses. American families are being penalized by increasing home values, effectively eliminating many of them from eligibility for federal aid programs. Because they are pursuing the American dream of home ownership, they are denied federal assistance to help their children pursue higher education. We have been tracking a disturbing state-by-state trend in the Pell Grant program, which we think may be a direct result of the inclusion of home equity in the student aid formula. Even though Pell Grant appropriations have increased more than 85 percent from FY 1982 to FY 1989, many students have lost Pell Grant eligibility. A student from a single-parent family, where the mother earns $16,000 per year and receives $92 per week in child support, is only eligible for a $250 Pell Grant. If that same parent had $35,000 equity in a modest home, her child would not be eligible for any Pell Grant. We do not believe that families should have to choose between the security of owning a home and sending children to college.

Some would argue that home ownership shows financial strength. Yet, the same parent I have just described could not even afford to borrow against the equity in her home. Booming real estate values have made many families increasingly "home rich" and "cash poor." Home equity loans are not an answer for many. In some states, such as Texas, they are prohibited by law.

Some families just do not have the cash, especially if they earn below $30,000 adjusted gross income (AGI), to repay a loan at current interest rates. We support the Senate position that home, farm, and small business equity should not preclude a young person with a family income of $30,000 AGI or less from receiving federal assistance, but we also think that elimination of these non-liquid assets should be extended to students from middle-income families for Stafford Loan eligibility. This change could also have a positive impact on reducing future default rates.

These same families and others who have modest assets would welcome the opportunity to borrow through the Stafford Loan program. By eliminating home, farm, and small business equity from the calculation for student loan eligibility, and returning to an eligibility determination based on income, you would again make higher education financing available to many deserving young people from families of modest means.

The policy of including farms in the asset calculation is particularly hard on rural families. The law requires that families assess the value of their land, livestock, and machinery. This amount is then used as an indicator of a family's financial strength. But that family could not possibly afford to liquidate their farm holdings to support their children's education.

Without access to financing, many young people will not be able to pursue higher education. As we all know, the nation will ultimately be the loser in this era of high-tech, global competition. Therefore, we recommend the following:

1. The analysis of a student's need for federal assistance should be three distinct formulas rather than the two currently in law. That is, a Pell Grant formula, a formula for distributing campus-based aid (now called Congressional Methodology), and a new third analysis specifically for Stafford Loan eligibility.
2. As stated in your bill, S. 568, families with incomes $30,000 AGI or less should be allowed to exclude home, farm, and small business assets from the consideration of need for all Title IV programs. This may also serve to simplify the aid application.
3. An allowance for multiple children in college should be built into the $30,000 AGI cut-off. For example, by adding $3,000 for each additional child in college, a family could have a $33,000 AGI and still exclude those non-liquid assets if they had two children in college. The simple $30,000 AGI cut-off does not allow any room for those families with more than one child in college, a common occurrence.

3. Most importantly, we believe that all needy families, regardless of assets, should have the ability to borrow through the Stafford Loan program. We would support a program that would require higher interest rates from borrowers above $30,000, AGI once they leave school and enter repayment, thus reducing the federal subsidy. The availability of loans through the Stafford Loan program for families with modest income and non-liquid assets would increase access and opportunity to higher education.

I cannot emphasize enough how vital loans are to expanding opportunity. I have not met a college graduate who, while concerned about their debt burden, does not appreciate the tremendous value of the loans they received, now named after your distinguished colleague, Senator Stafford. Many in this room would not be serving in various capacities today without the assistance that federal student loans have provided.

At the same time, we are terribly concerned that $1.8 billion per year in precious student aid expenditures is required to guarantee defaulted loans. This money would be better spent in other, more productive ways -- to provide student financial assistance grants, to develop early-awareness projects to keep young people in school, and to help increase the ability of under-represented minorities and other needy students to pursue undergraduate and graduate education.

We welcomed the Senate's default bill, and applaud this committee's leadership and decisive action. You have established the concepts that the administration has adopted in its final default rules. These rules exhibit strong new management from the Department of Education, and take aggressive steps without placing unfair burdens on colleges and universities and their students.

In general, we also support the Secretary of Education's new legislative proposals. We have not yet seen the proposed legislative language, so we cannot comment specifically. We will, however, be pleased to share our concerns after the language becomes available.

The Secretary has recommended and we believe that the ability-to-benefit (ATB) provisions must be strengthened to protect the consumer. We would go further than the Secretary and recommend that students admitted under ATB be ineligible for Part B (Stafford, Parent Loans for Undergraduate Students, and Supplemental Loans for Students) loans until they receive a General Equivalency Diploma (GED). We also support broader access to GED programs. More than 400,000 people complete their GEDs each year. We must encourage this push for literacy and discourage borrowing for those who have not completed high school or received a GED.

We also support the other legislative proposals including garnishment of wages, prohibition on commissioned sales, and graduated repayment options. In addition, we support the prohibition of certification of schools after accreditation loss. The Department's proposal would also require pro-rata refunds for all recipients of federal student aid at schools with default rates above 30 percent. In the Senate default bill, pro-rata tuition refunds were only required for schools deemed by the Secretary to be violating the Department-approved tuition refund policy standard. To date, this standard has not been abused in the collegiate sector. Our concern is that the Secretary's recommendation could be expanded to require pro-rata refunds for all schools, not just those with demonstrated problems. This would be unacceptable. We recommend adoption of the pro-rata refund provision in the Senate-passed default bill.

There are two other issues we would like to raise with the committee at this time. The first involves a growing problem with certain organizations that purport to offer services to students to help them complete student aid applications. The advice that some of these companies provide is often uninformed and misleading, and sometimes fraudulent. All parties must do a better job of disseminating student aid information to ensure that no one is taking advantage of needy students. In addition, we recommend that a requirement be added to the federal student aid application, as soon as it is feasible, that any third party (other than the student or parent) completing the aid application must attest to its validity by signing the application. This is similar to what the Internal Revenue Service requires for accountants completing tax returns. It is one simple step toward accountability and toward maintaining the integrity of the programs.

Finally, the leadership the Senate has shown in encouraging families to save for college through U.S. Savings Bonds is commendable. The law allowing certain individuals to purchase U.S. Savings Bonds for higher education expenses and receive a tax exemption for the interest earned will take effect in January, 1990. We would like to work with this committee to ensure that while we are encouraging families to save for college, we are not penalizing these savings in the need analysis. Perhaps the committee will consider what Washington, Rhode Island, Illinois, and other states have done. For families that save through those state bond programs, $25,000 of those savings are held harmless from consideration as an asset in the analysis of need for their state grant programs. This change for federal need analysis would encourage further investment in U.S. Savings Bonds, and may reduce the need for future generations of students to borrow to finance their educations. We hope to have ongoing discussions with you and your staffs about this issue.

Thank you for allowing me to present this testimony on behalf of NAICU member colleges and universities. We look forward to working with the members of this committee and their staffs to develop student aid policies that best meet the needs of the country. I would be happy to answer questions.

Senator SIMON. Mr. Johnson.

STATEMENT OF TERRY JOHNSON, DIRECTOR, LINCOLN TECHNICAL INSTITUTE, WEST DES MOINES, IA, ON BEHALF OF NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

Mr. JOHNSON. Thank you, Mr. Chairman, other members of this subcommittee.

My name is Terry Johnson. I am the director of Lincoln Technical Institute in West Des Moines, IA. I am the director there, which is one of 11 schools throughout the country within our corporation. My facility is a private postsecondary institution offering programs in automotive technology, automotive and diesel truck technology, and a degree program called Automotive Service and Management. We train automotive and diesel technicians for those respective industries.

I greatly appreciate the opportunity to testify before the subcommittee on behalf of Lincoln Technical Institute and the National Association of Trade and Technical Schools. I have prepared written testimony which I would like to summarize.

At Lincoln Technical Institute, we serve approximately 150 students year-round. Our student body consists of about half current-year high school graduates and the other half ranging from 19 to 35 years in age. The socio-economic backgrounds of our students also vary widely, from rural to urban and unemployed to upper-middle class. We have placed over 90 percent of our graduates in each of the last five years. Approximately 75 percent of our students receive Pell Grants and about 95 percent receive student loans.

NATTS announced its support for the regulations on the day that Secretary Cavazos announced the final regulations. While the regulations will have an adverse impact upon a number of students and schools, NATTS believes they are tough but fair.

I would like to share with you some of our concerns. While NATTS agrees with the need to reduce defaults, the department's method of calculating default rates presents a number of concerns. The current lack of sufficient, fair, and accurate data on default rates will cause improper and unfair implementation of these regulations.

The U.S. Department of Education has determined that my school's cohort default rate for 1986 is 26.9 percent. My most recent default rates, as provided by our two primary sources, are significantly lower. The United Student Aid Funds computes our default at 16.6 percent. The Iowa College Aid Commission states that our default rate is 14.0 percent.

There are a number of ways to calculate default rates. Some distort the magnitude of the problem. We recommend using an annual default measure in preference to the two that are currently utilized. The annual default rate measure measures how many defaults take place in a given year compared to all the loans in repayment that year. It provides a moving trend line so improvements or declines in the default rate can be measured over time.

The final regulations include a 30-day check delay for the disbursement of student loan money to students. NATTS supports the concept. However, students attending 300- to 900-hour programs are put into an untenable situation. Thus the check should be held no longer than an appropriate portion of time for the short courses.

Consumer protection is one area in which we do not believe that the Secretary has gone far enough in formulating the final regulations. The Secretary's plan requires all schools offering vocational education programs to list completion rates, placement rates, and State licensing requirements to all prospective students.

However, this consumer information clause does not apply to schools which offer associate, four-year, or postgraduate degrees except those which make claims about placement. Students who enroll in degree programs should have access to the same performance results expected of vocational programs. Programs including teaching, engineering, dentistry and business administration, to name a few, should have the same consumer disclosure rules as trade schools.

We have serious concerns about some of the legislative proposals the Secretary has recommended. First, the use of an independent third party for testing ability to benefit, ATB students, does not provide an efficient, effective solution to the problems of admitting these students. NATTS has formulated an alternative solution which relies on a third party to assess the content and administration of ATB tests.

NATTS and the Association of Independent Colleges and Schools, AICS, have entered into an agreement with the American Council on Education, ACE, to have them assess all submitted ATB tests. Only tests whose content and administering procedures receive approval by ACE would be permitted for use by NATTS schools. NATTS schools would be overseen in the use of these approved tests by the accrediting body, Department of Education, and by their State licensing body through normal program reviews.

The Secretary's proposal that the Congress pass legislation to prohibit schools from employing commissioned sales representatives for recruiting activities is unnecessary. There is no evidence that commissioned employees are any more or less honest than salaries employees.

Further, the nexus of the problem is not how students are recruited, but are they admitted. Excepting the perception that there must be safeguards to ensure the integrity of commissioned sales, NATTS has suggested legislation which would require that the individuals who make the final decision about whether or not to admit a student to school as well as the individuals who administer financial aid at the school must be salaried employees.

Thank you for this opportunity to testify before you today.

Senator **Pell** [presiding]. Thank you very much indeed.

Incidentally, Senator Harkin sent his regrets that he could not be here to introduce you. He wishes you well.

Mr. **Johnson**. Thank you.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF TERRY JOHNSON

DIRECTOR, LINCOLN TECHNICAL INSTITUTE

WEST DES MOINES, IOWA

My name is Terry Johnson. I am the Director of the Lincoln Technical Institute in West Des Moines, Iowa. There are eleven schools throughout the country within our corporation. My facility is a private postsecondary institution offering programs in Automotive Technology, Automotive and Diesel Truck Technology, and a degree program called Automotive Service and Management. We train automotive and diesel technicians for those respective industries.

I greatly appreciate the opportunity to testify before the Subcommittee on Education, Arts, and Humanities on behalf of Lincoln Technical Institute and the National Association of Trade and Technical Schools. I have prepared written testimony which I would like to summarize for you now, and submit in its entirety for the record. The role of private career schools in postsecondary education is becoming more and more important as we approach the turn of the century.

In the report prepared by the William T. Grant Foundation in 1988 titled The Forgotten Half: Non-College Youth in America, it is projected that in 1990, only 20 percent of jobs will require a college education while the remainder will require some level of technical skill. Private career schools are educating at least half of the full-time students enrolled in what are traditionally held as vocationally-specific programs.

Changes in the economy are eliminating the demand for untrained workers, and those untrained workers who are working are generally receiving very low wages. Education is the answer for these individuals, and student financial aid programs, such as the Pell Grant and Stafford Loan programs, provide low-income students with the opportunity to obtain access to postsecondary education.

At Lincoln Technical Institute, we serve approximately 150 students year-round. Our three programs very in length from 6 months to 11 months. We have classes starting and graduation every three weeks. Our student body consists of about half current-year high school graduates, and the other half ranging from 19 to 35 years in age. The socio-economic backgrounds of our students also vary widely, from rural to urban and unemployed to upper middle class. We help any student asking for assistance in finding part-time employment while in school and we have placed over 90 percent of our graduates in each of the last five years.

Approximately 75 percent of our students receive Pell Grants, and 95 percent receive student loans. All of the Lincoln Schools are utilizing the NATTS Default Management Handbook. In my school, we have a clerk designated to follow up on the NATTS default prevention procedures. They include entrance interviews by the registrar, an entrance video on defaults, exit interviews and an exit video for graduates, an exit interview for students whose education is interrupted or incomplete, and a system of follow-up letters sent at specific intervals before and after the student reaches repayment status.

All mail is marked "forwarding and address correction requested." This allows us to try to keep track of all students so that we may help lending institutions and guaranty agencies communicate with our students.

Based upon the information provided in the Secretary's press release, NATTS announced its support for the regulations on the day that Secretary Cavazos announced the final regulations. As pointed out in the NATTS press release, while the regulations will have an adverse impact upon a number of students and schools, NATTS believes they are tough but fair, and they will help to reduce the defaults that are caused by procedural weaknesses that currently exist in student loan programs. I concur with the NATTS position.

I would like to share with you some of our concerns.

Mr. Chairman, the fraud and abuse which have occurred at a small number of private career schools do not represent the practices of the entire sector, nor is a high default rate necessarily an indication that fraud and abuse are occurring. All available research demonstrates that default rates are primarily a function of the population served.

Because private career schools serve a large number of individuals from low socio-economic backgrounds, our schools will therefore have higher default rates. It must be noted that schools serving similar "at-risk" students will have a comparable default rate regardless of whether they are public or private, tax-dependent or tax paying.

Nevertheless, improvements are being made in the way that private career schools serve our students. Out of the default management workshops conducted by the Career Training Foundation, default management plans have been implemented in a growing number of NATTS schools. These default management plans are succeeding in reducing the number of defaults. Entrance and exit videos and student guides have also been developed to make sure that students know that they have a loan and know their responsibilities in repaying that loan.

I applaud the efforts of the Secretary in requiring the implementation of such a plan for schools with high default rates. The implementation of such plans are an effective method of curbing defaults without eliminating access to postsecondary education for high risk individuals -- individuals who are in perhaps the greatest need of the career-oriented education provided by private career schools.

While NATTS agrees with the need to reduce defaults, the Department's method of calculating default rates presents a number of concerns. The current lack of sufficient, fair, and accurate data on default rates will cause improper and unfair implementation of these regulations. No provision in these regulations should become effective until the 1988 tape dump data is in, compiled, and accurate -- emphasizing accuracy perhaps to the point of requiring verification from the Inspector General or the General Accounting Office. There is no consistent collection and reporting of data on the part of guaranty agencies. The existing data is seriously flawed. Only with considerable effort will the 1988 data be useful.

The U.S. Department of Education has determined that my school's cohort default rate for 1986 is 26.9 percent. My most recent default rates as provided from our two primary sources are significantly lower. United Student Aid Funds, our federal guaranty agency, computes our default at 16.6 percent. The Iowa College Aid Commission, our state guaranty agency, states that our default is 14 percent. These are both computed for the current year. Hopefully our continued efforts regarding default prevention will further lower our rates.

Throughout the debate over defaults, a number of technical decisions have been made which have had a dramatic effect on our understanding and interpretation of defaults. These technical decisions are not neutral and we need, as a community, to be very clear about the implications of these procedures. I am speaking specifically of the reported "default rates."

Some of the issues about the various ways of reassuring that defaults have been reviewed in the past and only warrant quick review here. The GROSS DEFAULT RATE is the measurement of default without inclusion of the reinstatement of previously defaulted loans which have returned to repayment. The use of gross default numbers excludes the success the government has had in increasing collections. A NET DEFAULT RATE which reflects collected defaults would provide a truer picture of the federal government's loss on defaults than the currently used gross default rate. In 1987, the cumulative gross default rate reported by the Department was 13.1 percent while the net rate was 9.5 percent. According to Secretary Cavazos, the Department expects to reinstate $690 million of defaulted loans in repayment during 1989, a significant improvement over previous years. This means default losses would be $1.1 billion in FY 1989, not $1.8 billion projected by the Department.

Another continuing debate deals with the use of NUMBER OF DEFAULTERS VERSUS DOLLARS IN DEFAULT. Obviously, many people are more concerned with the number of borrowers in default rather than the dollars in default. However, a $10,000 default by a single student should be of greater concern than a $1,325 default. Using a head-count measure misses this important consideration. In addition, a head-count measure overstates the magnitude of defaults because, as the research demonstrates, borrowers (often school dropouts) with smaller cumulative loan amounts are more likely to default than those with larger cumulative amounts. The recently published regulations are based on head-counts, not dollars.

The CUMULATIVE DEFAULT RATE is a measure of all defaults relative to all loans entering repayment since the inception of the Guaranteed Student Loan Program. It provides an historical snapshot of defaults at the end of each year. The measure does not capture default activity for a given year.

The TWO-YEAR COHORT MEASURE is quite different. It only includes loans entering repayment status in a given year. Those loans in the cohort which enter default during the two years after they first enter repayment are included in the calculation of the default rate. In the current regulations, those loans entering repayment in FY 1986 are observed through FY 1987 to determine which ones default. A new cohort could start each year. The two-year cohort measure was first thought to be better than a cumulative default rate because it enabled the default reduction efforts of schools to be measured -- a sensitivity that was not possible under a cumulative measurement.

The cohort measure has several limitations. It does not include all the loans in repayment, only those entering repayment in a given year. It does not include all the defaults, only those loans in the annual cohort which are included. In other words, this measure only includes part of the loans in the school's portfolio. As noted before, if a school, working with lenders and guaranty agencies, was successful in reinstating defaulted borrowers in repayment, no credit would be given in the two-year cohort measure.

Because the cohort is small relative to the total loans in repayment, a school with a small cohort (under 30 loans) could experience annual fluctuations in default rates with relatively small differences in the absolute number of loans defaulting. For example, if a school had 25 loans in the cohort and five defaulted, that schools would have a 20 percent default rate and would have to develop an individual default management plan. If, on the other hand, the school had four defaults, the rate would be 16 percent. In this example, the differences of one default in two years would mean the difference of being required to be identified as a high default school. The two-year cohort is unfair to schools with small numbers of borrowers. The Department rightfully excluded these schools from the aggregated calculations reported in Secretary Cavazos' announcement of regulations.

There are a number of ways to calculate default rates. We recommend using an annual default measure in preference to the two which are currently utilized. The ANNUAL DEFAULT RATE measures how many defaults take place in a given year compared to all the loans in repayment that year. It uses more information than two-year cohort so it will not be as volatile. At the same time, it provides a moving trend line so improvements or declines in the default rate can be measured over time. It is also amenable to a providing a net and gross measure, so the success a school has in reinstating previously defaulted loans could be included in the measure. The annual rate also has the advantage of being more widely used and understood in the banking community.

An example may help clarify the difference between the annual and two-year cohort measure. Assume a school had 100 loans entering repayment in a year and had 500 loans in repayment during the year. If 20 of the loans in the 100 loan cohort entered default, the school would have a 20 percent default rate. If 20 loans in the whole portfolio were to default, the default rate would be four percent. In the example, 20 defaults could be characterized as either a 20 percent or a four percent default rate. The two current measures are easily confused and misunderstood by participants and observers. The following table provides a comparison between the cumulative and annual default rate. It is not possible to include the two-year cohort rate because the data do not exist for its calculation.

Comparison of Annual and Cumulative Default Rates

Year	$ in Repayment (in millions)	$ in Default (in millions)	Annual Default (gross)	Cumulative Default (gross)
1975	$ 2,580	$ 129	5.0%	8.2%
1976	$ 2,651	$ 194	7.3	9.9
1977	$ 2,783	$ 202	7.3	10.9
1978	$ 2,925	$ 208	7.1	11.6
1979	$ 3,200	$ 223	7.0	12.0
1980	$ 3,762	$ 239	6.4	12.5
1981	$ 4,711	$ 254	5.4	12.3
1982	$ 6,856	$ 288	4.2	11.2
1983	$ 9,525	$ 531	5.6	10.8
1984	$12,959	$ 713	5.7	10.9
1985	$16,473	$1,032	6.3	11.6
1986	$20,591	$1,371	6.7	12.6
1987	$23,504	$1,378	5.8	13.1

Several things can be noted from the table. First, the rate of default is within historical averages. The increasing dollars in default reflect the increasing volume of loans in repayment. Second, the annual rate of default shows a sharp drop in FY 1987. It is not clear whether this is due to changes in reporting or whether the default reduction efforts started in 1986 are taking hold. Third, there is no direct relationship between the cumulative and annual rate of default. Knowing one default rate does not allow one to estimate the other two rates.

Agreement on a common measure of default will help clarify the policy and reduce confusion among participants. As it stands now, different rates are used interchangeably in speeches and policy documents. The decision as to which measure to use is more than just a technical consideration. It affects the amount of information we have available in the indicators. Perhaps most importantly, it has a profound effect on the perception of the magnitude of default.

It should be evident that we believe the choice of a two-year gross default measure based on a head-count is perhaps the worst choice that could have been made. It provides an incomplete picture of defaults, it does not credit schools for successful collection efforts, it is unstable, and it overstates the magnitude of defaults. We believe that universal adoption of an annual net default rate based on the dollar amount defaulted would prove to be a more useful and adaptable measure. We urge this subcommittee to consider such a change in reporting defaults in the Title IV Guaranteed Student Loan Programs.

With regard to the Limit, Suspend, and Terminate (L,S&T) provisions which are included in the default regulations, again I support the Secretary's decision. While the regulations authorize the initiation of L,S, & T actions if a school's default rate is higher than 60 percent, they do not require such action. As we understand, the Secretary will request information from the school pertaining to the causes of default rates, including the population served, and will consider efforts which the school has undertaken to reduce defaults. The school will thus be judged on its efforts. This provision will help to protect good schools which serve a large number of high risk students and focus adverse actions on schools that are not willing to take the necessary actions available to them.

Further, the Secretary's tiered approach to dealing with default rates is a balanced plan for reducing the number of defaults. It will expect more from schools with progressively higher default rates without denying access to postsecondary education to the many low-income students for whom private career education is best suited.

The final regulations include a 30 day check delay for the disbursement of student loan money to students. NATTS supports the concept of delaying these checks because it will reduce defaults and it is a sound economic policy which will help to reduce costs to lenders. A student who enrolls but does not attend the first day of class is costly to lenders in spite of the fact that schools return the full amount of the student's loan. The cost of processing that loan is borne by the lender. Delaying disbursement of the loan will eliminate the cost of processing loans for students who do not show up for class, or for those who drop out early.

Check delay can be an effective policy, as long as the check will be made available on the 30th day. The policy should be administered so as not to cause delays for receipt of the check beyond the 30th day in order to prevent financial hardship on the student and the school.

However, students attending 300 to 900 hour programs are put into an untenable situation. Thus, the check should be held no longer than an appropriate portion of time for the short courses.

In addition to the check delay policy, NATTS supports the holding by the school of the loan money over the price of the tuition, with the student receiving weekly disbursements of the money in excess of tuition. NATTS has found the disbursement of large sums of loan money to high risk, low income students stimulates high drop out rates.

As we understand the Secretary's regulations, the pro rata refund policy is actually a proportional formula that is recovered in 10 percent increments up to 50 percent of the program length. We applaud this method. It allows schools that do not normally take attendance to determine at reasonable times whether or not the student is still enrolled. It also recognizes the inherent weakness of a strict pro rata refund which penalizes those who complete the course by forcing them to assume the costs of those who do not complete. By allowing the refund to be complete at 50 percent of the program length, the Secretary has struck an excellent compromise between consumer protection and the fixed costs of educational institutions.

Consumer protection is one area in which we do not believe that the Secretary has gone far enough in formulating the final regulations. The Secretary's plan requires all schools offering vocational education programs to list completion rates, placement rates and state licensing requirements to all prospective students. However, this consumer information clause does not apply to schools which offer associate, four-year or post-graduate degrees except those which make claims about placement.

Students who enroll in degree programs should have access to the same performance results expected of programs of less than four years. Programs including teaching, engineering, dentistry and business administration, to name a few, should have the same consumer disclosure rules as trade schools.

While NATTS strongly supports the regulations on the whole and has reservations on some details, we have serious concerns about some of the legislative proposals the Secretary has recommended.

First, the use of an independent third party for testing ability to benefit (ATB) students does not provide an efficient, effective solution to the problems of admitting these students. NATTS has formulated an alternative solutions which relies on a third party to assess the content and administration of ATB tests.

NATTS and the Association of Independent Colleges and Schools (AICS) have entered into an agreement with the American Council on Education (ACE) to have them assess all submitted ATB tests. Only tests whose content and administering procedures receive approval by ACE would be permitted for use by NATTS schools. NATTS schools would be overseen in the use of these approved tests by their accrediting body, the Department of Education, and by their state licensing body through normal program reviews.

NATTS does not support the availability of only one test for all ATB students. NATTS schools offer programs in more than 120 different career fields, each requiring different skill levels in areas such as reading and mathematics plus other elements that should be part of the admissions determination.

The use of a separate testing site is not efficient because of the potentially high costs involved. Further, the possibility that the "independent" site could be at a location where those administering the tests might have unfavorable opinions about proprietary education could result in counseling students against the program of their choice.

NATTS supports the use of legitimate tests for ATB students, and the legitimate administering of these tests, but does not agree that the use of third party testing is the appropriate way to achieve such legitimacy.

The Secretary's proposal that the Congress pass legislation to prohibit schools from employing commissioned sales representatives for recruiting activities is unnecessary. There is no evidence that commissioned employees are any more or less honest than salaried employees. Further, the nexus of the problem is not how students are recruited, but are they admitted.

Accepting the perception that there must be safeguards to ensure the integrity of commissioned sales, NATTS has suggested legislation which would require that the individuals who make the final decision about whether or not to admit a student to a school, as well as the individuals who administer financial aid at the school, must be salaried employees. Recruiters who are on commission could still recruit, but would not make the decision about whether a student is or is not admitted to the program.

The proposed elimination of commissioned sales representatives would also eliminate the incentive for recruiters to do a good job. We support the concept that commissions be tied to the student's completion of the program. This would provide incentive to recruiters to do a careful job of recruiting students who are well-suited to the program and who are likely to be able to, and have the desire to, complete their education.

Although NATTS does not support several of the legislative proposals made by the Secretary, we wholeheartedly support another legislative recommendation made by the Secretary: the prohibition of certification of schools for program eligibility after the loss of accreditation. Action by an accrediting body to eliminate a school that is not providing quality education is rendered useless if the school can obtain accreditation from another accrediting body, sometimes within days of having their accreditation pulled by their original accrediting body.

I would like to close by again applauding Secretary Cavazos' tough but fair recasting of the default regulations. We share his commitment to ensuring the integrity of the loan programs.

Thank you for this opportunity to testify before you today. I will be pleased to answer any questions.

Senator PELL. Ms. Clement.

STATEMENT OF JANET CLEMENT, EDUCATIONAL LOANS DIVISION, BANK ONE, MERRIVILLE, N.A., MERRIVILLE, IN, ON BEHALF OF CONSUMER BANKERS ASSOCIATION

Ms. CLEMENT. Thank you. Mr. Chairman, members of the Subcommittee on Education, Arts and Humanities, my name is Janet Clement with Bank One, Merriville, N.A., located in Merriville, IN. Thank you for the opportunity to testify before you today on the subject of the new Stafford Loan regulations and other student loan issues. My views today reflect the position of the Consumer Bankers Association's education funding committee.

Lenders in the Stafford Loan Program support the department's new default regulations. Several aspects of the regulations, including the imposition of a modified refund policy on educational institutions with default rates in excess of 30 percent, will effectuate changes in the behavior of schools that will reduce default losses.

CBA believes that it is appropriate that limitation, suspension, and termination proceedings be brought against educational institutions with unreasonably-high default rates among former students. As you know, Mr. Chairman, the default rate calculations included in the regulations are controversial and have been challenged as inaccurate. This aspect of the new regulations may require some additional work.

Finally, CBA supports the imposition of the default management plan on schools with default rates in excess of 20 percent. Taken as a whole, the new regulations are very reasonable and provide an educational institution with good intentions and a commitment to quality a clear opportunity to continue to participate in student financial aid programs.

There is an aspect of the new regulations of particular concern to lenders—the requirement that the request for preclaims assistance on delinquent loans be shared with the schools within 30 days after being made. As required, schools would be inundated with reports from multiple lenders that are in different formats and of questionable utility.

In order to address this problem, CBA has submitted recommended legislative language to the subcommittee to direct guarantors to send this information to schools on their request.

In his default reduction initiative, the Secretary has proposed mandating the offering of a graduated repayment option to borrowers in the program. We understand that this proposal is based on evidence that a graduated repayment option will reduce defaults. We have not yet reviewed the evidence. However, we are concerned that a reduction in the speed of amortization of outstanding amounts will effectuate an increase in the Government's special allowance cost and an increase in interest paid by the borrower over the life of the loan.

CBA takes no position on the graduated repayment option.

CBA endorses the prohibition on the use of commissioned sales representatives by educational institutions for the purpose of recruiting students.

As you know, Mr. Chairman, the Department of Education has been developing a revised Form 799 used by lenders for the purpose of billing interest and special-allowance benefits from the Department of Education. CBA believes that the objectives of the revised 799 are legitimate. However, we have several specific concerns with the new form:

(1) Many lenders will have difficulty in implementing average daily balances, as is required on the new form;

(2) Fine-tuning of the instructions on the new form are still in process. Thus, implementation problems are still being worked out, and

(3) It appears that education may have insufficient time to appropriately test the new form.

The probable result of these problems is that lenders maybe unable to complete the billing form in full compliance with the form's instructions. For this reason, CBA proposes that specific legislative language be adopted by the Congress to direct the department to make payment pursuant to a 799 submitted with technical errors by a lender, provided that the lender certifies that the billing is as complete and accurate as possible and the lender indicates any recognized problem reflected in the form.

In addition to these issues, CBA also wishes to point out five other concerns of lenders that may warrant some form of legislative activity. We have submitted legislative language on some of these.

On the windfall profits recapture, in 1986 the Congress enacted a provision requiring lenders to rebate excess profits received on student loans after the borrower's interest rate increased to 10 percent. The step interest rate in and of itself is a major problem for lenders because a single borrower may have loans which convert to the higher interest rate at different points of the life of the loan, thereby undermining the desired administrative consolidation of loans and causing problems for the holder as well as the borrower.

CBA continues to be concerned that the current statutory provisions governing disclosures to borrowers and processing of deferments on SLS loans are unworkable and unnecessarily complex. Because of the accrual of interest on SLS loans during the in-school period, the disclosure to the borrower at time of loan origination estimated monthly payments is difficult to process and highly speculative. Provision of this information to borrowers potentially creates confusion. CBA recommends that this disclosure be deleted.

Lenders also continue to be deeply concerned regarding the solvency of some guaranty agencies and believes that the committee should direct the Department of Education through legislation or through a direct request to develop specified procedures to effectuate the merger of consolidation of guaranty agencies in the event of the insolvency of a single agency and to provide for the direct payment of reinsurance benefits to the lender in case the agency becomes insolvent.

As has been well documented, there has been significant lender withdrawal from the program in the past six months. CBA believes that the possibility of borrowers facing difficulty in obtaining loans under the program is a very real prospect and that it is appropriate for Congress to review the lender of last resort provisions.

CBA continues to believe that the current due diligence regulations are rigid and unrealistic in their demands on lenders. These regulations should be modified as soon as possible to address this problem.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions.

[The prepared statement of Frank Cammarata follows:]

PREPARED STATEMENT OF FRANK CAMMARATA ON BEHALF OF THE CONSUMER BANKERS ASSOCIATION

Mr. Chairman, Members of the Subcommittee on Education, Arts and Humanities, my name is Frank Cammarata, Vice President with Bank One, Merrillville, NA, located in Merrillville, Indiana. Thank you for the opportunity to testify before you today on the subject of the new Stafford Loan regulations and other student loan issues. My views today reflect the position of the Consumer Bankers Association's[1] Education Funding Committee.

Default Reduction Initiative Regulations

Lenders in the Stafford Loan program support the Department's new default regulations. Several aspects of the regulations, including the imposition of a modified refund policy on educational institutions with default rates in excess of 30 percent, will effectuate changes in the behavior of schools that will reduce default losses. In addition, the new regulations will benefit students through improving the admissions process and providing schools with new incentives to retain students through the completion of their educational program.

CBA believes that it is appropriate that limitation, suspension and termination proceedings be brought against educational institutions with unreasonably high default rates among former students. As you know, Mr. Chairman, the default rate calculations included in the regulations are controversial and have been challenged as inaccurate. This aspect of the new regulations may require some additional work. It may be appropriate for this Committee to intervene with a statutory definition of default rate similar to those discussed during Congressional consideration of your default reduction bill last year.

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[1] The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 700 federally insured banks, savings and loans and credit unions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

Finally, CBA supports the imposition of the default management plan on schools with default rates in excess of 20 percent. Under the new regulations, default management plans will be based on information supplied to the Department by the educational institution itself, thus making it probable that the plan will address problems specific to the particular school. Lenders also believe that the list of default reduction measures compiled by the Department as Appendix D of the regulations provides schools with a well thought out effective list of remedies to utilize in achieving this goal.

Taken as a whole, the new regulations are very reasonable and provide an educational institution with good intentions and a commitment to quality, a clear opportunity to continue to participate in student financial aid programs.

There is an aspect of the new regulations of particular concern to lenders -- the requirement that the request for pre-claims assistance on delinquent loans be shared with schools within thirty days after being made. As required, schools would be inundated with reports from multiple lenders that are in different formats and of questionable utility. In order to address this problem, CBA has submitted recommended legislative language to the Subcommittee to direct guarantors to send this information to schools on their request. This will reduce the volume of paper coming into the school and facilitate its use. Our Amendment is similar to a provision included in S. 568, your default reduction bill. We hope the Subcommittee will adopt it.

Proposed Legislation for a Graduated Repayment Option

In his default reduction initiative package, Secretary Cavazos has proposed mandating the offering of a graduated repayment option to borrowers in the program. We understand that this proposal is based on evidence that a graduated repayment option will reduce defaults. We have not yet reviewed the evidence. However, we have the following concerns:

1. A reduction in the speed of amortization of outstanding amounts on student loans will effectuate an increase in government special allowance costs, and an increase in interest

paid by the borrower over the life of the loan.

2. Many borrowers not in need of relief from the amount of repayment will exercise the graduated repayment option if it must be offered to all borrowers.

The loan consolidation option available to students at specified levels of indebtedness appears to me to be the appropriate mechanism for offering students relief from high repayment burdens. It is also worth noting that all lenders in the program have the opportunity to offer a forbearance to a student indicating a commitment to repay his/her loan without the immediate ability to do so.

CBA takes no position on the graduated repayment option. However, we will closely review the Department's evidence of its effectiveness and its legislative proposal when it is delivered to Congress.

Commissioned Sales Representatives

CBA endorses the prohibition on the use of commissioned sales representatives by educational institutions for the purpose of recruiting students. The anecdotal information, widespread in the student loan community, and the personal experiences of some CBA members, indicates that many abuses in student recruitment occur as a result of under-trained, inappropriately motivated, independent commissioned sales representatives. The elimination of this means of compensation will help effectuate a reduction in abusive student recruitment.

Other Regulatory and Policy Issues

A. Form 799

As you know, Mr. Chairman, the Department of Education has been developing a revised Form 799 used by lenders for the purpose of billing interest and special allowance benefits from the Department of Education. Approximately one year ago, the Department released specifications for a significantly more complex and detailed Form 799. The purpose of the modifications in the Form 799 is to provide the Department of Education with increased information on loan activity by the lenders in the program and to provide internal edit checks of billings to the federal government. CBA believes that both objectives of the revised 799 are legitimate, and we do not oppose the desire of the Department to compile additional information regarding Stafford Loans for the purpose of administering the program. However, we have several specific concerns:

1. Many lenders will have difficulty in implementing average daily balances as is required on the new form.

2. Fine tuning of the instructions on the new form are still in process. Thus, implementation problems are still being worked out.

3. It appears that ED may have insufficient time to appropriately test the new form.

The probable result of these problems is that its implementation, beginning with the December 31, 1989 billing, will result in many lenders being unable to complete the billing form in full compliance with the form's instructions. For this reason, CBA proposes to this Subcommittee today that specific legislative language be adopted by the Congress to direct the Department to make payment pursuant to a 799 submitted with technical errors by a lender, provided that the lender certifies that the billing is fully complete and accurate as possible and the lender indicates any recognized problem reflected in the form. As is currently required under the Department's policies and regulations, lenders would be required to repay to the Department of Education any amounts overbilled by error. The test period would last three billing periods after which full compliance with the 799 in all its regards would be required. The amendment developed by CBA would repeal the mandatory payment of billings pursuant to Form 799 should the Department withdraw or modify the new revised form during any of the three quarters envisioned.

B. Other Issues

In addition to these issues, CBA also wishes to point out five other concerns of lenders that may warrant some form of legislative activity prior to reauthorization of the Higher Education Act in 1991:

1. "Windfall Profits Recapture". In 1986, the Congress enacted a provision requiring lenders to rebate "excess" profits received on students loans after the borrower's interest rate increased to 10 percent. Under the amendment, amounts received from the borrower as interest in excess of the base special allowance rate must be rebated to the borrower.

This amendment has caused considerable concern in the lender and servicer community due to the operational difficulties surrounding the process of rebating what may turn out to be very limited amounts of monies to student borrowers as well as implementing the stepped interest rate on the loan. The stepped interest rate in and of itself is a major problem for lenders because a single borrower may have loans which convert to the higher interest rate at different points of the life of the loan, thereby undermining the desired administrative consolidation of loans and causing problems for the holder as well as the borrower.

CBA proposes an elimination of the stepped interest rate on all loans subject to this provision. Our amendment reduces the interest rate after the fifth year of repayment to 8 percent rather than the current statutorily required 10 percent, as well as eliminates the windfall profits recapture provision. As its preferred option, CBA would recommend a fixed rate of 8 or 9 percent. We understand, however, that there may be budget concerns regarding this amendment. To address these concerns, CBA proposes that consideration be given to setting the interest rate at a variable based on the 52 week bond equivalent rate on a variable basis suggested annually on all loans going into the future. In order to protect the borrower from excessive increases in the interest rate, the borrower's interest rate would be capped at 9 percent with a special allowance payable to lenders when the borrower's interest rate exceeded 9 percent.

2. SLS Deferments and Borrower Disclosure

CBA continues to be concerned that the current statutory provisions governing disclosures to borrowers and processing of deferments on such loans are unworkable and unnecessarily complex. Because of the accrual of interest on SLS loans during the in-school period, the disclosure to the borrower at time of loan origination estimated monthly payments is difficult to process and highly speculative. Provision of this information to borrowers potentially creates confusion and could actually discourage some borrowers from paying their loans later. CBA recommends that this disclosure be deleted.

An additional problem on SLS loans relates to deferring the payment of interest on such loans during periods in which the borrower is in school. Currently, a specific deferment request form must be processed. This requirement is burdensome and requires the borrower to submit not only a SLS application form but also a deferment request form in order to delay the requirement to repay interest on his/her loan. To address this situation, CBA recommends that deferments be authorized on the basis of the submission by the borrower of a SLS application form which includes an indication of a desire to defer repayment or a separate deferment form (as under current practice). In addition, interest would be deferred not only during the period covered by the loan, but also during any summer vacation or interval between academic periods, provided that the borrower's academic program had not yet been completed.

CBA believes that these amendments will maintain the integrity of the program, while at the same time facilitate the processing of deferments on these loans. We hope that the Subcommittee will include this amendment in its legislation.

3. Guaranty Agency Solvency

Lenders also continue to be deeply concerned regarding the solvency of certain guaranty agencies and believes that the Committee should direct the Department of Education through legislation or through a direct request to develop specified procedures to effectuate the merger of consolidation of guaranty agencies in the event of the insolvency of a single agency and to provide for the direct payment of reinsurance benefits to the lender in the case an agency becomes insolvent.

CBA believes it would be highly imprudent to wait until a guaranty agency becomes insolvent before addressing how such an event would be administratively handled. CBA would be pleased to work with this Subcommittee on a letter to the Secretary requesting guidance on this matter or on an amendment specifying procedures directly.

4. Lender of Last Resort Provisions As has been well documented (although not yet acknowledged by the Department of Education), there has been significant withdrawal from the Stafford Loan program in the past six months. Not only have the well-publicized withdraws of First Independent Trust Company, Glendale Federal Savings, and the Bank of New York occurred, but numerous smaller lenders have reduced or limited their participation. CBA believes that the possibility of borrowers

facing difficulty in obtaining loans under the program is a very real prospect and that it is appropriate for Congress to review the lender of last resort provisions found in Section 428(j) of the Act to determine whether these provisions would be viable and workable in the event of a widespread access problem.

Several guaranty agencies, including California, have indicated that they do not believe they would be able to fulfill their statutory requirements to meet lender of last resort loans if a significant volume of requests for such loans were made. For this reason, action needs to occur now on developing an appropriate equitable means of addressing the lender of last resort problem so that eligible borrowers are not unable to find a lender.

5. Due Diligence Regulations. CBA continues to believe that the current due diligence regulations found with 34 C.F.R. 682.411 are rigid and unrealistic in their demands on lenders. Because the consequences of relatively minor violations of the regulations result in losses of principal and interest on loans, many lenders have placed a higher priority on compliance with the regulations than on achieving repayments from borrowers. This is counterproductive, and is not reasonable. For this reason, CBA has been working with the Department of Education on revisions to the due diligence and collection regulations and encourages this Subcommittee to become involved in these conversations. CBA

believes that a set of regulations requiring aggressive collection activities that will reduce default experience among borrowers is possible, and that the current regulations should be modified as soon as possible toward this end.

Conclusion

Mr. Chairman, this concludes my statement. Thank you again for the opportunity to testify before this Subcommittee today. I would be happy to respond to any questions you or any Members of the Subcommittee might have.

Senator PELL. Dr. Flippin.

STATEMENT OF JAMES L. FLIPPIN, DIRECTOR, MISSISSIPPI GUARANTEE STUDENT LOAN AGENCY, JACKSON, MS, ON BEHALF OF NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS, INC.

Dr. FLIPPIN. Thank you, Mr. Chairman.

I have submitted my written testimony for the record.

Mr. Chairman, members of the committee, my name is Jim Flippin, and I am director of the Mississippi Guaranteed Student Loan Agency and current president of the National Council of Higher Education Loan Programs. I am extremely happy to appear before you today to discuss the issues in the Stafford Loan Program, especially the recent announcement of the Secretary of Education's default initiative.

This year the Department of Education estimates that $12.2 billion will be loaned to some 4.6 million students. We are proud of these numbers and believe they are proof that the Stafford Loan Program is working and working well. However, we share your concerns that budgetary constraints have forced our Nation's students to borrow to support their education.

The number one priority of the National Council of Higher Education Loan Programs during the reauthorization of the Higher Education Act in 1985-86 was to reverse the trend toward loans and moving away from grants, especially the Pell Grant program.

As of fiscal year 1987, approximately $77.4 billion had been made available to students since the beginning of the guaranteed student loan program in 1965. Of this amount, approximately $42.8 billion was outstanding either in repayment or supporting students currently in school. Last year, default costs were projected to reach $1.6 billion. However, through a combination of Federal and guaranty agency efforts, they actually amounted to $300 million less than anticipated. For fiscal year 1989, it is estimated that the Department of Education will pay $1.8 billion in default claims.

For the record, I must note that these numbers represent gross cost to the Federal taxpayer and not the actual cost to the Treasury.

All in all, collections this year are expected to reduce the total Federal obligation by one-third, or approximately $600 million. However, there is no disputing that the default costs are much too high and that default rates at some schools are intolerable.

The default initiative announced by Secretary Cavazos is designed to reduce these costs. I applaud the Secretary's actions, and I pledge the full support of my agency and the belief that all the guaranty agencies in making this initiative work.

The default initiative will give us more tools to take further action. There is no question that delayed certification and disbursements of loans to first-time borrowers at schools with a cohort default rate of more than 30 percent will significantly reduce default rates.

Similarly, the requirement of a *pro rata* refund policy will substantially reduce the borrower's indebtedness if he leaves school early.

It also makes eminent sense to prevent institutions from accreditation-shopping. I am sure that you and your staffs, as we have today, heard schools complain, and others, concerned about the data on cohort default rate distributed by the Secretary at his press conference as being inaccurate.

In some measure, the schools are correct. The data for the 1986 cohort default rates were taken from tapes submitted by guaranty agencies to the Department of Education. At the time the data were collected, participation in the tape dump was totally voluntary. The National Council of Higher Education Loan Programs, in cooperation with the department, revised the data collection instrument and made participation mandatory.

The council is working closely with the department to make certain that the current tapes submitted by the guaranty agencies reflecting the fiscal year 1988 activity are accurate and complete.

However, I must note that with all the inherent flaws in the existing data, it cannot be totally ignored. A school showing a 50, 60, or 70 percent default rate under the Secretary's data cannot expect to find that technical corrections and updated information will transform them into a 10 percent default school. Reducing defaults takes hard work.

The very existence of a cohort default rate is confusing to many schools and to the general public, since this concept did not exist prior to 1987. I would urge the subcommittee to legislate several definitions, for comprehensive programmatic purposes: (1) an annual default rate with both gross and net figures; (2) a cumulative default rate with gross and net figures; (3) the cohort default rate that we have already talked about, and (4) a "trigger" default rate.

The agency's "trigger" rate, which is the number that determines the level of an agency's reinsurance, should be published along with the cohort rate.

Mr. Chairman, the National Council of Higher Education Loan Programs and I are supportive of the regulations promulgated by Secretary Cavazos. We believe that they have the potential to significantly reduce both loan default rates and default costs. I am confident that we can work closely with the Secretary and his staff to assure that the defaults in the Stafford Loan Program are successfully reduced to the minimum level achievable. We look forward to receiving the language of the department's legislative proposals and to working with the subcommittee and its staff in their consideration.

Thank you for inviting me to appear before you today, and I would be happy to answer any questions.

Senator **Pell**. Thank you very much, Dr. Flippin.

[The prepared statement of Dr. Flippin follows:]

PREPARED STATEMENT OF JAMES L. FLIPPIN

Mr. Chairman and Members of the Subcommittee. My name is James L. Flippin, and I am Director of the Mississippi Guarantee Student Loan Agency and current President of the National Council of Higher Education Loan Programs. I am extremely happy to appear before you today to discuss issues in the Stafford Loan Program and, especially, the recent announcement of the Secretary of Education's Default Initiative.

As you are aware, the Stafford Loan Program (comprised of Stafford Student Loans, Supplemental Loans for Students, PLUS Loans for parents, and Consolidation Loans) is the largest single program of Federal financial aid for students attending institutions of postsecondary education. Last year, lenders in the program made approximately $11.8 Billion available to students and their parents; this year, the Department of Education estimates that $12.2 Billion will be loaned to 4.6 Million borrowers.

While those of us who have dedicated our professional lives to making postsecondary education available to all individuals who can benefit from it are proud of these numbers, and believe they are proof that the Stafford Loan Program is working, and working well, we share your concern that budgetary constraints have forced our Nation's students to borrow to support their educations. The number one priority of the National Council of Higher Education Loan Programs during the 1985-86 reauthorization of the Higher Education Act was to reverse the trend towards loans and away from grants, especially Pell Grants. I am confident that the Council's position will remain equally strong as this Subcommittee undertakes its reauthorization efforts in Fiscal Year 1990.

Limited growth in appropriations for Pell Grants and college-based programs, growth which has failed to keep pace with rising college costs, has -- unfortunately -- pushed Stafford Loan volume to new heights year after year. As of FY 1987, approximately $77.4 Billion had been made available to students since the beginning of the Guaranteed Student Loan Program in 1965. Of this amount, approximately $42.8 billion was outstanding--either in repayment or supporting students currently in school.

Numbers of this magnitude give rise to large numbers in default. While the annual default rate has remained relatively steady, and even declined, over the past decade, the dollar cost to the Federal government has steadily risen, reflecting the increased lending volume to which the percentage is applied.

Last year, default costs were projected to reach $1.6 Billion. However, through a combination of Federal and guaranty agency efforts, they actually amounted to $300 less than anticipated. For FY 1989, it is estimated that the Department of Education will pay $1.8 Billion in default claims. It is my hope, and belief, that actual costs will be correspondingly less.

For the record, I must note that these numbers represent gross cost to the Federal taxpayer, not the actual cost to the Treasury. Guaranty agencies continue to collect on defaulted loans after claims are filed for Federal reinsurance, and 70 cents of each dollar collected is returned to the Federal Government. Almost all guaranty agencies participate with the Department of Education and the IRS in assuring that potential income tax refunds of defaulted borrowers are seized and used to repay their Stafford Loans. And Departmental collection agencies are still attempting to recover on defaults incurred in the old Federal Insured Student Loan Program. All in all, collections this year are expected to reduce the total Federal obligation by one third, or approximately $600 Million.

However, there is no disputing that default costs are still much too high, and that default rates at some schools are intolerable. The Defaul Initiative, announced on June 1 by Secretary Cavazos, is designed to reduce these costs and weed the "bad apples" out of the Program so that it can continue to make aid available to the millions of students at responsible institutions. I applaud the Secretary's actions. I believe that they have the potential to make a significant impact on the default problem currently confronting the Program. And I pledge the full support of my agency and, I believe, all the guarantors to making the Initiative work.

All agencies conduct program reviews of their major schools, and their "problem schools," to make certain that all the rules and regulations are being properly complied with. Most agencies have undertaken Limitation, Suspension, and Termination actions against schools which have shown absolutely no capacity to administer the program under the law. Many of the highest default schools listed in the Department's list of 1986 cohort default rates are already out of business because of actions taken at the State level by the guaranty agency. At least one State has already announced plans to require Default Management Plans of all of its schools with default rates of more than 25%. The Default Initiative will give us all more tools to take further actions.

There is no question that delayed certification and disbursement of loans to first-time borrowers at schools with a cohort default rate of more than 30% will significantly reduce default costs. A student who has "walked in and walked out" of a school -- whether a four-year institution or a trade school -- feels no obligation to pay off a loan for education he did not receive. After all, he received nothing of value and has no greater chance of being employable than he did before his visit to the school. The fact that the debt is owed to a lender which is totally separate from the school is irrelevant to him. The loan is almost certainly a default.

But if he must remain in school for 30 days before receiving his loan proceeds, he will have shown a level of persistence that bodes well for his completion of his education. If he completes, research shows that he is far more likely to repay.

Similarly, the requirement of a pro rata refund policy will substantially reduce the borrower's indebtedness if he leaves school early. Current law requires each institution to have a refund policy. However, in some cases, an institution has used a "no refund" policy to fulfill the requirement, maximizing both its return on the student loan and the amount of indebtedness (and probable default) imposed on a borrower. If a school is required to have a moderate pro rata refund policy, refunds due early school-leavers can be applied directly to reduce the amount of their debt -- and any potential Federal cost if they subsequently default.

The policy makes eminent sense for the Stafford Loan Program, and it would seem to make sense for all Federal student aid programs, as the Department will propose through legislation.

This Subcommittee originally authored the prohibitions contained in current law against use of commissioned salesmen in conjunction with receipt of Federal student financial aid. That language has successfully closed down some of the shady practices that had been brought to the Subcommittee's attention. However, some unscrupulous schools have skated close to the language of the law and, I believe, clearly beyond its intent, by continuing to use commissioned recruiters but salaried financial aid counsellors. Although I have not seen the Department's proposed language concerning prohibition of commissioned sales representatives for recruiting and admitting activities, I support the concept of further cracking down on questionable practices. We have all read too much in the press about recruitment in unemployment lines and among the homeless to let these practices continue.

It also makes eminent sense to prevent institutions from "accreditation-shopping." The current ability of a school to seek alternate accreditation when it is subjected to question or disciplinary action by its accrediting agency can make it impossible for an accrediting agency which is trying to enforce high standards on its schools to succeed in cleaning up its industry. Guaranty agencies faced the same problem prior to the 1986 Amendments in undertaking Limitation, Suspension, and Termination proceedings against an institution. The institution would simply seek another guarantor and continue to "rip off" its students. This Subcommittee was instrumental in closing that loophole in the 1986 Amendments, and I would recommend that it look favorably on a similar provision with relation to accreditation.

I am sure that you and your staffs have heard schools' complaints that the data on cohort default rates distributed by the Secretary at his press conference are inaccurate. In some measure, the schools are correct. The data for the 1986 Cohort Default Rate were taken from tapes submitted by guaranty agencies to the Department of Education reflecting their guaranty activity for the fiscal year. Yet, at the time these data were collected, participation in the Tape Dump was totally voluntary with guarantors and many of the information fields were optional, depending on the guarantor's computer system. Since in the development of the Tape Dump it had never been contemplated that the information would be used to develop a cohort default rate, one of the optional fields in the format was the critical field of "Student Status." Entire States, such as Rhode Island, did not fill out this field. Therefore, when the Department decided to develop data by school based on the date borrowers entered repayment, those States' data could not be incorporated in the totals.

NCHELP, in cooperation with the Department, revised the data-collection instrument and made participation mandatory. "Date borrower entered repayment" became a mandatory data element in 1989, and agencies were required to provide this information on all their borrowers for the first time.

The Council is working closely with the Department to make certain that the current tapes submitted by guaranty agencies, reflecting FY 1988 activity, are accurate and complete. We are confident that, working together, we can provide the data necessary for the implementation of the regulations' delayed certification requirements on October 1, 1989.

However, I must note that, with all the inherent flaws in the existing data, it cannot be totally off the mark. A school showing a 50, 60, or 70 percent default rate under the Secretary's data cannot expect to find that technical corrections and updated information will transform it into a 10 percent default school. Reducing defaults takes hard work, as guaranty agencies have found. The Departmental regulations merely ask schools to share in the overall effort already required of guarantors and lenders.

The very existence of a "cohort default rate" is confusing to many schools and to the general public, since this concept did not exist prior to Secretary Bennett's announcement of his proposed initiative in 1987. While the cohort rate is useful for the purposes of the Initiative, since it is the most sensitive to activities undertaken by schools to reduce defaults, it should not become the only measure used to describe the Stafford Loan default situation.

I would urge the Subcommittee to legislate several definitions, each useful for a specific purpose, and to require the Department of Education to calculate and to publicize each one, along with appropriate explanations. For comprehensive programmatic purposes, we need all of the following:

Annual default rate, both gross and net

Cumulative default rate, both gross and net

Cohort default rate

"Trigger" default rate.

Traditionally, annual and cumulative default rates have been used to measure default rates in the Stafford Loan Program. However, all too often the Administration has publicized only the gross rate, or rate reflecting the total amount claimed by guaranty agencies. The net rate, reflecting the dollars collected by guaranty agencies and defaulters returned to repayment status, is too often downplayed or ignored.

Similarly, the agency "trigger" rate, that statutory calculation which determines the level of an agency's reinsurance, should be publicized along with the cohort rate, since it reflects an agency's claims experience as a percentage of its entire repayment portfolio.

There are a couple of issues in addition to the Default Initiative that the Subcommittee may wish to consider at this time, prior to reauthorization:

Stafford Student Loan (GSL) Interest Rate and "Windfall" Provisions: Currently, new borrowers pay 8 percent interest for the first four years of their repayment period and 10 percent thereafter. In addition, lenders are required annually to calculate whether they received a "windfall" and, if so, to rebate that amount to the student's account.

The split interest rate and the "windfall" requirement are extremely burdensome for lenders and, in many cases, threaten to prevent the administrative consolidation of a student's loans to simplify his repayment obligations. While this may be an issue best left for reauthorization, if it is budgetarily possible to repeal the stepped interest rate and "windfall" provisions at this time, I believe that such action by the Subcommittee would be in the program's best interests. As the press has reported, lenders are curtailing their participation in the loan program, or are dropping out altogether. Return to a flat rate Stafford Student Loan would be a strong signal to the lending community that the Congress is sympathetic to their costs and concerns about continuing to lend to students.

Mismatch between PLUS/SLS Borrower Interest Rate and Lender Special Allowance: In Fiscal Year 1990, for the first time, Treasury bill rates are high enough that the annual borrower interest rate will be capped at 12 percent. However, under current law, lenders are unable to project their yield on PLUS/SLS loans, since their Special Allowance payments will be tied to the average cost of 91-day T-bills for each quarter, rather than to the 52-week T-bill on which the borrower's interest rate is calculated. If the Subcommittee decides to move legislation affecting the Stafford Loan Program, it may wish to deal with this anomaly at that time.

Lender of Last Resort: Much publicity has also been generated about lender decisions to limit or discontinue lending to students attending high default schools or, in some cases, attending any proprietary institution. While NCHELP proposed the Lender of Last Resort language contained in the Stafford Loan Program, which would make the guaranty agency a State's lender of last resort, it was anticipated at the time that any loan-availability problems would be geographic in nature, affecting all or part of a State, as had been the historical pattern.

Today, however, although we have no evidence that any student is unable to obtain loan capital, there is great concern in the proprietary community that a problem may emerge later this year. The Council would be happy to meet with the Subcommittee and its staff to develop workable alternatives to assure that the lending responsibility remains with the lending community and that all eligible borrowers continue to receive Stafford Student Loans.

Mr. Chairman, the National Council of Higher Education Loan Programs is generally supportive of the regulations promulgated by Secretary Cavazos. We believe that they have the potential significantly to reduce both loan default rates and default costs. I am confident that all NCHELP members will work closely with the Secretary and his staff to assure that defaults in the Stafford Loan Program are successfully reduced to the minimum level achievable. In addition, we look forward to receiving the language of the Department's legislative proposals and to working with the Subcommittee and its staff in their consideration.

Thank you for inviting me to appear before you today. I would be happy to answer any questions that you might have.

Senator **Pell**. Dr. Burnett.

STATEMENT OF CALVIN W. BURNETT, PRESIDENT, COPPIN STATE COLLEGE, BALTIMORE, MD, ON BEHALF OF NATIONAL ASSOCIATION FOR EQUAL OPPORTUNITY IN HIGHER EDUCATION

Dr. **Burnett**. Good afternoon. Thank you, Mr. Chairman, and members of the committee.

I am Calvin Burnett, president of Coppin State College in Baltimore, MD, and a member of the board of directors of the National Association for Equal Opportunity in Higher Education, which has just celebrated its 20th anniversary as a voluntary independent association of 117 Historically and Predominantly Black Colleges and Universities.

Mr. Chairman, I would apologize if some of my remarks, which will be brief, will be in vague and uncertain outline. Based upon the Secretary's presentation, I had to revise some of my revised testimony.

I would like to address three topics that are most important to the NAFEO institutions and to the Nation. First, the President's proposal for endowment challenge grants to Historically Black Colleges and Universities; second, the student loan default reduction initiatives, and third, the participation of Black colleges and universities in TRIO programs.

First, in terms of the 117 NAFEO institutions located in 24 States and the District of Columbia as well as the Virgin Islands. These institutions enroll about 285,000 students and graduate about 30,000 students annually, approximately one-third of all Blacks who graduate with undergraduate, graduate, and professional degrees.

Since 1966, these institutions have awarded approximately half a million degrees. The majority of these students are from families that are at or below the poverty line, and a higher education would not be possible without the Federal student aid.

And here I must say to you how much we appreciate our efforts over the years in making sure that students have equal access through student financial aid, sir.

And I would say to Senator Paul Simon that we of the Historically Black Colleges and Universities owe you a debt of gratitude we will never be able to pay. We appreciate that, sir.

The statistics that I have cited can be judged against the 3,000 majority institutions in this country that graduate the other 70 percent of minority students. So that we are talking about 3 percent of the institutions in higher education that graduates 30 percent of the minority students, which is a very important point in terms of legislation and the implementation of regulations as they impact on these institutions.

First, regarding the endowment challenge grants, the Black college community applauds both the President's proposal to add $60 million over four years to Title III, Part C of the Higher Education Act, and Chairman Pell's cosponsorship of this legislation. These efforts, equally as important to the Historically Black Institutions, recognize the historical role of HBCU's as providers of equal opportunity and quality education for Black Americans and the need to assure their future in fulfilling the Federal mission of equal access and choice.

Here I might add there are not incompatible dimensions existing between quality and excellence and access. It is in balancing those needs for our great Nation that we recognize that quality and excellence in programs are very much needed and are constantly striving to achieve that goal.

Regarding the student loan default reduction initiatives, the Secretary eased our minds considerably in some of his presentation. The sensitivity and reasonableness with which he is approaching this is a considerable improvement over the regulations that they had been initially projecting.

However, there are still some areas we would like to offer for your consideration that possibly could be revised. One, the default thresholds. We remain concerned that default threshold or default rates are not in themselves related to the effectiveness or the efficiency of the management of that program. And it is often reflected in that way. The money in default versus people in default. And in many instances, these are not related.

And I have to finish up here.

The final thing has to do with the participation of Historically Black Colleges and Universities in TRIO programs. That is a great program. We hope that it is continued to be funded as it is. And it solves some of the problems involving graduation, retention, and these other problems that we are concerned with.

Thank you very much, sir, for this opportunity to make this presentation.

[The prepared statement of Dr. Burnett follows:]

PREPARED STATEMENT OF CALVIN W. BURNETT ON BEHALF OF THE NATIONAL ASSOCIATION FOR EQUAL OPPORTUNITY IN HIGHER EDUCATION

Good Morning. I am Dr. Calvin W. Burnett, President of Coppin State College in Baltimore, Maryland, and member of the Board of Directors of the National Association for Equal Opportunity in Higher Education (NAFEO) which has just celebrated its 20th anniversary as the voluntary independent association of 117 historically and predominantly Black colleges and universities.

Mr. Chairman and members of the Subcommittee, I am very delighted to testify on behalf of NAFEO and the institutions it represents. I would like to address three topics that are most important to NAFEO institutions and to the Nation:

(1) The President's Proposal for Endowment Challenge Grants for Historically Black Colleges and Universities (HBCUs);

(2) The Student Loan Default Reduction Initiatives; and

(3) The Participation of Black Colleges and Universities in TRIO Programs.

Before I address these topics, I would like to make a few comments about NAFEO institutions, in general, and Coppin State College, in particular. The 117 NAFEO institutions, located in 24 states, the District of Columbia, and the Virgin Islands, enroll almost 285,000 students and graduate 30,000 students annually, or approximately one-third of all Blacks who graduate with undergraduate, graduate, and professional degrees. Since 1966, these institutions have awarded approximately half a million degrees. The majority of these students are from families that are at or below the poverty line, and a higher education would not be possible without Federal student aid.

Historically, these institutions have been the greatest producers of Black military officers, business executives, elected officials, Federal judges, and physicians. Founded to serve those who had been severely crippled by slavery and poverty, historically Black colleges and universities (HBCUs) have continued through the years to elevate disadvantaged youth to productive and creative leadership. Their graduation rates, in particular, are unrivaled and attest their continued viability and importance as national resources. Although Black student enrollment has declined nationally, Black colleges and universities are experiencing an increase in Black male and female enrollment.

Founded in 1900, Coppin State College, where I have served as President since 1970, is a model urban institution within the Maryland Educational System and serves the Baltimore area primarily. In addition to its traditional liberal arts program, Coppin, in cooperation with the University of Maryland, offers dual degree programs in engineering, dentistry, pharmacy, and a certification program in social work. Several masters programs are offered, including criminal justice and rehabilitation counseling. In its role as the educational source for the Baltimore community, Coppin offers twelve different outreach programs to various segments of the population. Our Fall 1988 enrollment was 2240, and approximately 85% were on Federal student aid.

As I proceed, I will provide some additional comments about the impact of the topics I will address on Coppin State College.

(1)

The President's Proposal for Endowment Challenge Grants for Historically Black Colleges and Universities (S.568, the Educational Excellence Act of 1989)

The Black college community applauds both the President's proposal to add $60 million over four years to Title III, Part C of the Higher Education Act for Endowment Challenge Grants for HBCUs and Chairman Pell's co-sponsorship of this proposal introduced by Senator Kassebaum. These efforts recognize the historic role of HBCUs as the providers of equal opportunities and a quality education for Black Americans and the need to ensure their future in fulfilling the Federal mission of equal access and choice.

The level of endowments at Black colleges and universities is dismally lower than at their white counterparts. In 1987, the total endowments at our 42 private Black colleges, which are also members of the United Negro College Fund (UNCF), was $295 million with an average endowment of $7 million. This level represents about an 11% increase over the previous year.

On the other hand, the National Education Association (NEA) reported that endowments showed a 13.1% increase nationally in 1987 which was about half the rate of the previous year. Based on a sample of 50 endowments, decline was attributed to the October 19, 1987, stock market crash. The NEA listing of the 120 largest endowments in 1987 showed a high of $4.0 billion and a low of $66.8 million. One Black college was ranked in the top 120, and it ranked 109th. The institution which ranked 32rd had an endowment of $298 million which exceeded the total endowments for 42 of our four year private Black institutions. At these 42 institutions, the average endowment per FTE (full-time equivalent) student was $6,710. The national average endowment for all private institutions per FTE student was $18,102, almost three times the average at 42 Black private institutions.

The endowment picture at public Black colleges is even more distressing. In 1985, the total endowment for 23 of our four year public Black colleges was $20.7 million. Rarely has an endowment exceeded $3 million, and the majority are well below a million dollars. For example, the endowment at Coppin State College is $900,000 in contrast to the endowments of $8 million at Baltimore City College and over a half billion dollars at Johns Hopkins University.

The lower endowments at Black colleges and universities reflect not only the fact that fund raising capabilities are limited, but also the fact that these institutions do not have an abundance of wealthy alumni on which they can depend. In addition, the limited overall finances of these institutions require that the majority of their resources be used for program and facility operations. Oftentimes, where possible, endowment earnings must be used to operate rather then to reinvest.

The fact that the majority of our recent alumni graduate with high student loans, have heavy family responsibilities, and are employed at a lower level then whites, according to the Census

Bureau, exacerbates the problem of low alumni support. Consequently, many years may transpire after graduation before our alumni are in a financial position to make substantial contributions to our institutions.

When the Endowment Program was authorized under Title III in 1983, there was a set-aside provision that resulted in the awarding of approximately 65 small grants (i.e., less than $500,000) to Black colleges between 1984 and 1986. The set-aside provision was not retained in the 1986 amendments which contributed, in part, to the decline in Black college participation. In 1987, only 3 grants went to Black colleges out of 36 awarded, and in 1988, only 8 grants went to Black colleges out of 24 awards.

Mr. Chairman, if the proposed $60 million over 4 years could be awarded to HBCUs, the highest levels of leadership would send a message to the Nation that these institutions are truly appreciated as national resources, and they must be preserved and assisted in their pursuit of excellence by both the public and private sectors. The fact that the $150,000 endowment grant received by Coppin State College in 1985 generated an additional $300,000 attests the multiplier effect of these Challenge Grants.

Although the Cosby donation of $20 million to Spelman College may not be frequently matched, this demonstration of Federal commitment would provide a good stimulus for private sector philanthropy. Moreover, the Federal Government, serving as a catalyst for generating private sector endowment support to insure the future of Black colleges and universities, would be responsive to the legacy of the late Dr. Fred Patterson, former President of Tuskegee University, founder of UNCF, and champion of the Endowment Challenge Grant Program. We concur that "this proposal is the right proposal at the right time."

The 100th Congress acknowledged the legal claim of HBCUs to a program of institutional assistance to remedy past discriminatory actions by authorizing the Black College Act (Strengthening HBCUs Program, Title III, B) under the Higher Education Act Amendments of 1986. This program provides assistance to HBCUs to improve their programs, faculty, management, and physical plant. Other institutions which serve large numbers of low-income and minority students receive similar support under the Strengthening Developing Institutions Program (Title III, Part A).

As you know, institutions eligible for support under Title III A and B are eligible for Endowment Challenge Grants under Title III C. Although these programs have not been fully funded at the authorized level since the 1986 reauthorization, there have been annual increases in the appropriations. We feel that this is evidence that the Congress believes that strengthening these institutions will strengthen our educational system and enhance our goals of access and equity. As we pursue greater endowment assistance for HBCUs, we hope that the Congress will sustain and increase its efforts to strengthen the programs and facilities of HBCUs and other institutions serving large numbers of minority and disadvantaged students.

After three years of experience in the Strengthening HBCU Program, the presidents of HPCUs have agreed that some adjustments should be made in the allocation process. Since the endowment proposal would require a change in the Title III statute, we hope that, as S.695 progresses, you would be willing to make a few technical corrections in Part B, as well as Part C, that would result in a more equitable distribution of awards for the undergraduate and graduate institutions. At a later date, we will confer with committee staff on this issue and on any efforts that we can undertake to make the endowment proposal a reality. In addition, we want to work with staff in determining the modifications necessary to ensure that the start-up date of the legislation is compatible with the authorization dates and other specifications in the existing statute that might be affected.

(2)

The Student Loan Default Reduction Initiatives

Let me restate the fact that we feel that the President's endowment proposal is sincere and well conceived, and we fully support it and commend your leadership, Chairman Pell, on the Educational Excellence Act. However, these efforts are in great contrast to the movement to make institutions shoulder the responsibility for student loan default reduction. We are alarmed at the potential destruction to NAFEO institutions that could result from some of the recent default reduction initiatives. The impact of the default reduction initiatives on NAFEO institutions tends to cloud the noble efforts of the President and the sponsors of S.568.

Before detailing some of our specific concerns about the Department's default initiatives, we want to again raise some policy issues that may be overlooked in our quest to catch program abusers, curtail budget drains, and improve program management. First, we need to re-evaluate why our Federal policies permit us to force low-income high risk students into borrowing large sums of money as a pre-requisite to equal opportunity or choice. We must realize in the face of very convincing data that our equal opportunity agenda must be multi-faceted to include the higher funding of grant programs and programs like TRIO that help students with academic and financial deficits graduate and find jobs that enable them to repay. Secondly, we need to reconsider any approach to default remedies that could cripple Black colleges and universities--the higher education sector that has been and continues to be the most effective in providing a quality education for large numbers of Black Americans. We need to stop looking at and treating these institutions, which paved the road to equal opportunity, the same way as we do institutions which have no similar track record or mission.

Based on the default data issued with the Department's initiatives, the following impact can be seen:

1. 94 institutions are included in the 1986 COHORT DEFAULT RATE data, and the average default rate is 35.7%.
2. 22,063 borrowers entered repayment.

3. 5 institutions are above 60% and would become subject to LS&T in the first year.

4. 35 institutions are between 40-60% and would be required to reduce their rates by 5% per year or be subject to LS&T.

5. 63 institutions are above 30% and would be required to: (1) delay loan certification and disbursement for first-time borrowers and (2) use pro-rata tuition refund policy up to the mid-point of the program/semester.

6. 83 institutions are above 20% and would be required to provide entrance counseling to first-time borrowers.

7. 74 are above 25% and would be affected by the Senate passed default reduction bill, S.568.

8. All of the five Maryland institutions are above 30%, and one is above 60%; therefore, all of them would be hit by the severest requirements.

9. Only one of the seven South Carolina institutions is below 20%, and six are above 40%.

10. Our three Ohio institutions are above 30%, and one is above 50%.

11. Our one Illinois institution is over 30%.

12. Two of our six institutions in Mississippi are at 40%, 3 are below 30%, and one is below 20%.

We are continuing to assess the impact of the initiatives and are not, at this point, attempting to detail any of the administrative and financial problems that we might experience in complying with stiffer due diligence requirements. We appreciate all of Secretary Cavazos' efforts in listening to the concerns of the education community and in trying to develop initiatives that are sensitive. The following eight issues are among our broader concerns about the Department's initiatives:

1. Default Thresholds - Institutional default rates should not be used, because institutions do not make or collect the

loans. Furthermore, it is premature to use these rates to determine sanctions without evidence that the institution's practices and policies are directly related to the cause of the default problem. If institutions are going to drastically reduce default rates, they will be compelled to seek authority to make loan decisions which might ultimately cause them to deny admission to the students that they were established to serve--a fear that makes institutional lending unattractive to Black colleges.

2. Money in Default vs. People in Default - If one of the goals is to reduce the dollars in default, default sanctions (e.g., S.568) should also be aimed at institutions with high dollars in default. Many institutions with high default rates have a relatively low number of students and dollars in default. Even when their default rate is reduced, the amount of dollars returned will not be very significant. The assumption is faulty that low default institutions are not abusive and high default institutions are. Students should be protected wherever they are. If remedies are appropriate, they should help students everywhere.

3. Faulty Data - The Department of Education has admitted that the data used to determine defaults in 1987 were faulty and the present data are also faulty. This situation should be cleared up before any of the default initiatives are put in place. The data problem is more directly related to the accuracy of the data than the method of calculation, although

some administrators feel that the COHORT RATE exaggerates the default rate.

4. Bad Publicity - Advertising default rates and sanctions will hurt the Black college image and inhibit our recruitment and retention efforts. The students are the defaulters--not the institutions--unless program reviews demonstrate that bad management practices are the cause of the defaults. The fact that default rates are widely published for institutions and not for lenders or guarantee agencies makes the institutions the culprits, even though many institutions are improperly charged.

5. Unscrupulous Practices - If institutions or groups of institutions have failed to inform students that they are receiving loans or have in any way abused students, these institutions should be the targets of sanctions versus those which are serving large numbers of low-income, first generation college students who should be getting grants instead of loans. Institutions which have an excellent record of enrolling and graduating high risk students should not be grouped with institutions that do not have a similar record and/or student body, simply because they have similar default rates.

6. Pro-rata Tuition Refund - Refund of the GSL up to the midpoint of the semester will place a heavy burden on institutions with limited resources. Many Black colleges and universities do not have the institutional resources to cover these short-falls, even with creative budgeting. This

sanction should only be put in place when a program review determines that the institutional refund policy is inappropriate. Proposed legislation that would expand this policy to all student aid programs would be extremely damaging. Existing tuition refund polices have been designed to fit institutional management and planning procedures.

7. Delayed Disbursement for First-Time Borrowers - Generally, students going to Black colleges and universities, especially those off-campus, do not have the extra resources to cover personal and/or school expenses that might be required during the 30-45 days delay. The institutions would also experience serious cash flow problems during this interim, because the first-time borrowers, mostly freshmen, make up the largest group of borrowers and require the greatest amount of costly institutional services.

8. Administrative Cost Allowance - If institutions are expected to take on a greater role in the collections process, develop exhaustive default management plans, and cover losses from an extended tuition refund policy and delayed disbursement, an administrative cost allowance should be provided. Such an allowance would reduce the likelihood of tuition increases that may be necessary to cover these added expenses. It would be appropriate to provide an administrative cost allowance for institutions to cover many of the same expenses that are covered for lenders and guarantee agencies.

The Senate Bill, S.568, would also present some difficulties for NAFEO institutions. Given the 25% threshold, 74 of our institutions would be required to develop default management plans, if the present cohort rates are used. Particularly troublesome is the fact that there is no reprieve. If default management plans do not result in significantly lower default rates in three years, the default management plan may be extended and the socio-economic status of the students may be taken into consideration.

We are troubled by the facts: (1) that there is no opportunity to determine the influence of the student population on the default rate until after initial default management plans are ineffective and (2) that the guarantee agencies who make loan decisions are the monitors. There does not seem to be a real recognition in the various default reduction proposals that many of the default problems are attributable to the nature of the high risk population served. Unless we devote resources to determining the underlying causes of default, we will continue to offer solutions for problems--other than lost revenue--that we do not understand and to impose requirements on institutions that may do little to remedy defaults.

In no way do the Black college administrators want to exonerate themselves from helping to solve the default problems. Rather, we would like to offer our expertise in analyzing the problems and arriving at solutions that would not impede our progress and abilities to serve the population which we have served greater than any other collegiate sector. Before the Department's regulations go into effect and further legislative proposals are advanced, we feel that a task force of Black college presidents should be convened to advise the Department and the Congress on our special circumstances and to fully evaluate the impact of these actions. This recommendation was previously made in response to the proposed regulations along with many of the foregoing comments. At any rate, we are presently trying to ascertain the full range of concerns of our membership regarding the Department's initiatives so that we will be prepared to advise as requested.

3

The Participation of Black Colleges and Universities in Trio Programs

Unquestionably, NAFEO is very proud of the involvement of Black colleges and universities in the six TRIO programs and is supportive of efforts to increase their appropriations and the numbers served. Trio programs are great success stories that heighten the Nation's equal opportunity image. The National Trio Day, celebrated across the Nation, is a beacon of light for those that would dare to dream and gives recognition to those who have overcome the vestiges of poverty and taken leadership in their professions and communities. The critical importance of TRIO programs and need for expansion are also seen in the forecast of Workforce 2000 which clearly indicates that the productivity of this nation is inextricably linked to the educational attainment of the disadvantaged populations served by TRIO.

Seventy three NAFEO institutions host TRIO programs, and they received $19.8 million in funds in FY 88 which funded 140 projects and served 35,600 students. This participation represents about 10% of the total TRIO appropriation.

Two research studies corroborate the fact that TRIO programs are extremely effective in achieving the national goals of improving access to college for disadvantaged students and increasing graduation rates from college for this population. A Research Triangle Institute study (1979) of Upward Bound revealed that program graduates are four times as likely to graduate from college as similar students who did not have benefit of similar programs. A study by the Systems Development Corporation (1981) of Student Support Services found that college freshmen served by TRIO programs who received supplemental counseling, tutoring, and instructional services were twice as likely to complete their freshman year as similar students who did not receive these services.

Although there are no recent studies, we are convinced that these differences still exist. We have been informed that the Department of Education is planning to undertake a second set of studies of TRIO programs next year. The Department is also in the process of extending Talent Search services to junior high school students to encourage them to complete high school and continue their education at the postsecondary level. As the host of a

Talent Search Program, Coppin is particularly excited about this expansion and the needed help for the Baltimore area.

We commend these efforts especially in light of the evidence that young Black males, in particular, lose their commitment to the schooling process at a very young age. This attrition can be seen in the fact that Black males currently represent 13% of our 18-24 year old male population but only 4% of male baccalaureate degree recipients. If we are to reverse this trend, early intervention is necessary to encourage their academic persistence and to convince them that education is an avenue to upward mobility. This challenge must be undertaken by all persons and institutions which have an interest in the quality of life in our communities.

TRIO programs play an important role in student loan default reduction. They have a proven track record in increasing retention and graduation; thus, they serve to enhance the attractiveness of an institution to high risk students who require special tutoring and counseling. Since there is a link between dropouts and defaults, institutions which can be helped through TRIO programs to improve their graduation rates of high risk students will be the most productive in reducing defaults. Surely, we would be better advised to reduce defaults by providing the support services necessary to help the high risk student graduate and achieve the earning power to repay loans rather than to restrict their choice of compatible institutions because of default rates caused by former students.

Thank you for the opportunity to present these views.

Senator PELL. Thank you very much, Dr. Burnett. I shall forgo any questions because of the time constraints.

Senator Cochran.

Senator COCHRAN. Thank you very much, Mr. Chairman.

Let me just say that President Bush came to Alcorn State University in my State of Mississippi to deliver the commencement speech this year. And it was a great occasion for many reasons. One was that it gave me an opportunity to mention the TRIO program, while helicoptering into that campus on that occasion. I talked with the officials at Alcorn, including Dr. Walter Washington. He was here at the White House for a meeting when many of these proposals were developed, with discussions and involvement of many of our administrators from Historically Black Colleges and Universities. So I am glad to see that is a part of this package. And the $60 million is a very important addition to the authority that we would have.

I notice too, and this may not have been mentioned before, that there is the assumption that these are funds that will be matched by fund-raising activities of those colleges and universities. And I don't think that has been publicized much. But it is part of the deal that the colleges and universities will also have a responsibility to reach out for other sources to make these funds more helpful.

I just thought that ought to be mentioned too. I know you know that, but a lot of others don't. They just think that this is a special deal for those colleges and universities. But there is reciprocity required, and that is something that, I think, is an extra dimension.

Dr. BURNETT. The last time around, Senator Cochran, we see $150,000 of the endowment and we were able to get another $300,000 based upon the $150,000. So the leverage is tremendous.

Senator COCHRAN. It really is, and I think that is an important aspect of that program.

One thing that you mentioned, I think, does deserve the attention of this committee especially, and that is the threshold and how you measure that in terms of numbers of people or total dollar amount. That does need the attention of the committee, and I think we should pay close attention to your suggestion in that area, and I am anxious to look more at the specifics that you suggest on that point.

Dr. Flippin, welcome to Washington. It's good to have a Mississippian on this panel, and we are proud of you and the fact that you are heading up the National Council of Higher Education Loan Programs. I think you are reflecting a great deal of credit on our State and being a great help to us as we understand the practical aspects of these default regulations and the legislation that has been proposed.

One thing you mentioned was that we should maybe legislate some definitions about default rates, gross and net, and some others. There were about four specific definitions that you suggested that we include in the bill in terms of what they mean and what we mean when we talk about them.

I hope you will submit to us for the record your recommendations as to what that language ought to be. I think that could be very helpful to our committee.

Ms. Clement mentioned guaranty agency solvency as a potential problem because there are no guidelines in place or procedures as to how you would deal with insolvency.

What is your reaction to her suggestion, and is there any procedure that you would recommend to respond to that concern?

Dr. **Flippin**. Senator, in Mississippi, a lot of times we have the distinction of being last in a lot of things. That was almost true with the guaranty agency. However, we were the next-to-the-last agency to go on line in 1982. There are some positives about that because there were certainly some mistakes that we didn't have to make that some of the others were making.

But it takes a period of time to establish the solvency of a guaranty agency. A great deal of help is afforded initially by Federal advances that are placed on account with an agency to build its reserve fund, to increase the confidence of the lending communities, especially the lenders in the State to participate.

The last couple of years, as a matter of fact, the agency in Mississippi has recently been demanded to turn back some three-quarters of a million dollars of these advances, based on a formula from Management and Budget or GAO or somewhere. And once we get below a certain level, we will have difficulty. Our status at this particular point is okay, but not tremendously solid.

I think Ms. Clement's concern that she raised is a valid concern and I think that it is something that certainly needs to be looked at.

Senator **Cochran**. I noticed one thing in my notes, which is that the Mississippi student loan program had a default rate of only 4.97 percent during fiscal year 1988. It sounds to me like you're doing something right in connection with that, although there were some specific institutions where the rate was much higher than that.

Dr. **Flippin**. Well, here again, Senator, in the definition of default rates, the "trigger" default rate is something that needs to be defined so that the default in Mississippi is defined the same as the default rate in other States.

We have never exceeded a 5 percent default rate in Mississippi since we started the program there. Based on the economy there, based on a number of other things, we are proud of that record.

But we need a definition so that we can consistently define particular terms, and I think that would be helpful to you and the committee as well in looking at that consistency.

Senator **Cochran**. Mr. Chairman, I have just two other quick questions.

I was going to ask Mr. Johnson if his schools would be adversely affected if we adopted the suggestion made by Mr. Irwin that only high school graduates or those holding GED certificate or the like be eligible for Federal financial assistance from the Stafford Loan Program.

Mr. **Johnson**. Senator, I can only answer that based on my individual school. Des Moines, Iowa, is in the heart of Iowa's literacy belt. We have always been in the top three nationwide. I think I have less than 10 percent ATB students, without checking. But it is, I am sure, under 10 percent.

Senator **Cochran**. I wonder, too, Mr. Irwin, in talking about filling out the application and requiring someone who fills it out if he is other than the applicant or the applicant's parents signing the application, is this something that we should require in the legislation or could the Department of Education simply administratively issue this as part of the rulemaking?

Mr. **Irwin**. Well, I would suspect, Senator, that it could be required as part of the rulemaking from the Department of Education. My only suggestion in putting it into the bill was to give them that encouragement. I think it's a very important thing to do. So if it was in the legislation, it certainly would make sure that that subject was nailed down.

Senator **Cochran**. Is the purpose of that to help deal with the question of fraud and abuse or inaccuracies? Do you think people would pay more attention if they were filling out the application if they had to sign it? Is that it?

Mr. **Irwin**. There is no question about that. There is a lot of—I have been on the circuit for 20 years—there is a bit of hucksterism out there right now on that subject. There are a lot of people that are going to parents and saying, well, we'll show you how to hide all your assets and we'll show you how to do this so you can get Federal funds.

I don't think that's right. I don't think that's the purpose of the program. I think it's a circumstance that if they had to sign those forms and they had to say, no, this is my form, this is how it's filled out, we'd do away with that kind of potential abuse and the growth of that abuse too. So I am very much in favor of it.

Thank you, Senator.

Senator **Cochran**. Thank you, Mr. Chairman.

Senator **Pell**. Thank you very much.

Senator Simon.

Senator **Simon**. Yes, just a couple of quick questions.

Dr. Flippin, you mentioned that the banks don't like the 8 percent rate for four years and then the increase up to 10 percent. That is, frankly, done to try to encourage people to pay off the loans. I don't see why that should be any great problem to the banks.

Dr. **Flippin**. Well, I think it's administratively a problem, Senator. And the other thing is that, I think that it's a problem with the student as their rates go back and forth. The confidence of the banking community, I think, in this program right now is almost fading. We have had a large number of banks, two large banks in New York, that don't lend to proprietary students or have proposed not to lend to the proprietary sector any longer.

One of the major important things for the banks, at least in my State, which are the ones that we deal with, is to stabilize the program just for a couple of years and leave it alone so they can set their computer systems, make their system work, get the delivery of the loans to the students.

I would think that it's probably more administratively than anything else.

Senator **Simon**. OK.

This is not a question, just a comment. Mr. Irwin, in your testimony you say, "I have not met a college graduate who, while concerned about their debt burden, does not appreciate the tremendous value of the loans that they have received."

I agree with that. At the same time, I have to say I run into young people, ran into a couple just a few weeks ago in Illinois, only one of them owes on a loan but they were paying $711 a month for a little better than five years, they're postponing having a family, postponing having a home. The shift that we have made to loans from grants, I think, is causing problems in our society, and I think we have to recognize that.

Finally, and I direct this particularly to Dr. Burnett and Mr. Johnson, but any of you, I have this concern with the whole loan default problem. It is that not that some figures get distorted, but if you're serving a group that is in an impoverished area, inevitably you are going to have a higher default rate, and it may very well be that the money that we invest for a trade school or a traditionally Black college where there is a 30 percent default rate may be much better money invested than we invest at Harvard where they're going to get to school anyway.

Now, I am not picking on Harvard, but any reflections by any of the witnesses on this whole question would be helpful. It seems to me that part of how we weigh this problem is whom we serve.

Dr. BURNETT. That's the fundamental problem. If we're talking about high-risk students and talking about loans to sustain them, that is an enormous problem. We thought a few years ago that we weren't getting very far with anyone, trying to explain that to them, and so that we don't try to explain that anymore. I think we touched on it in the testimony, but it is the shift, I mean the overall emphasis, the shift from grants to loans is absolutely creating that problem.

And for us, for the historically and predominantly Black institutions, we are enormously concerned because it is being interpreted as mismanagement and inefficiency and ineffectiveness on our part, and it has begun to touch on our instructional program and people making judgments about, well, how good is that, because of the management problems with the loans. That's the first thing.

The second thing is that I still feel very deeply, and perhaps I should not speak for NAFEO on this issue, that part of it has evolved because of some of the banking industry—and I don't wish to attack them at all—but they approved loans that we would have rather not approved, but we had no choice but to approve them once they were approved. And that turned out to be a high risk, and we had to live with it.

Mr. JOHNSON. Senator Simon, let me summarize real quickly the NATTS position, of which I am sure you are aware. We cater to about 650,000 students nationwide all the time with our schools, a very broad spectrum. A lot of poverty, low income.

In my case in Des Moines—and you have been there, sir, many times—we don't have the poverty problem per se, but it does me a lot of good as a director of a school to hand a student a diploma after nine or ten months of training that I know has been on welfare, I know he has a job starting the next Monday, and we have helped him accomplish his goal.

That is what NATTS is all about. Thank you.

Senator **Pell**. Excuse me. Your other great advantage is that you pay taxes too.

Mr. **Johnson**. Right.

Mr. **Irwin**. Senator, if I might just comment on that just very briefly. I think one of the things is how you direct the money to the impoverished, the really poor people in the country and I think that you could go into the communities.

For example, in Seattle, WA, we have a registry program which I am involved in. We have 358 central area students. Now, we tell them that if they can maintain a 3.0, and we set up a mentor system for them and we work with their parents, from juniors onto seniors, maintain that 3.0, we will guarantee that you will go to college and graduate from college. We will pay for it.

The thing is that if we had that kind of initiative throughout the country of using some grant funds for the real impoverished people, I look at the same thing on the Yakima Indian Reservation, at Heritage College, the tremendous success we have had because it's a community-based effort. And those are the kinds of things that Congress could be very, very encouraging to local communities.

Not coming and paying for the whole bill, but sharing the partnership of educating poor people in the country, I think that that's the way that maybe this should be approached.

Senator **Simon**. If I may follow, Dr. Burnett, you said banks are approving loans that the colleges would not approve or the schools would not approve. I thought you had to approve before a bank would approve. Am I incorrect? Any of you?

Dr. **Flippin**. I think that it does, but at the same time, if the student is eligible for the money, I'm not sure that the financial aid administrator on his campus could disapprove the loan. And that is not to throw the blame in on the lender or the guaranty agency, because if the eligibility is there, unless you're going to be discriminating in some way, the loan was pretty much approved.

There are no credit checks or whatever. If there were, it might eliminate the whole program altogether, to do a credit check on an 18-year-old individual at this kind of level.

So I am not sure that it now can be at the school or at the lending institution or at the agency if the eligibility is indeed there.

Senator **Simon**. I thank all of you.

Thank you, Mr. Chairman.

Senator **Pell**. Thank you very much.

I thank all of you for being with us, and for being so patient.

Senator Jeffords had asked that his prepared statement be included in the record. Without objection, it is so ordered.

[The prepared statement of Senator Jeffords and additional material supplied for the record follows:]

PREPARED STATEMENT OF SENATOR JEFFORDS

Mr. Chairman: Thank you for calling together this hearing on the administration's education proposals. I, too, want to welcome Secretary Cavazos and I look forward to his testimony.

First, let me commend the administration for this proposal which reflects its strong stance on education. The Educational Excellence Act puts the Federal Government firmly on record as committed to the needs of all students. It further reinforces the Hawkins-Stafford goal of providing educational opportunities for underserved and underpriveledged youngsters.

This bill promotes quality education by rewarding individual teachers for hard work that often goes unrecognized. Furthermore, the bill provides seed money to those schools most urgently in need of drug prevention and education programs. I am particularly glad to note the National Science Scholars Program to award outstanding academic achievement in science and mathematics. Clearly, to keep this country competitive it is imperative that we encourage our young people to pursue careers in science and math. This program advances that priority.

I applaud this proposal, as well as the default initiative. It is refreshing to note the priority that this administration has placed on education. I look forward to working with the Secretary and the department in the future.

New England Institute of Technology 2500 Post Road, Warwick, Rhode Island 02886-2251, Telephone (401) 467-7744

June 15, 1989

The Honorable
Lauro F. Cavazos
Secretary of Education
U. S. Department of Education
400 Maryland Avenue S.W.
Washington, DC 20202

Dear Mr. Secretary:

We are writing to register our very serious concerns with respect to the implementation of the Student Default Initiative Regulations as published in the Federal Register of June 5, 1989, and the default rate published for the New England Institute of Technology of Warwick, Rhode Island.

By way of introduction, New England Institute of Technology (NEIT) is a private, co-educational, non-profit technical college offering 14 programs at the associate and baccalaureate level. New England Tech is accredited regionally by the New England Association of Schools and College, Inc., and nationally by the Accrediting Commission of the National Association of Trade and Technical Schools, and chartered by the State of Rhode Island to offer the Associate in Science and Bachelor of Science Degrees. New England Institute of Technology employs several hundred people and enrolls about 2,000 students annually. We have been serving the Rhode Island and Southeastern Massachusetts community since 1940.

Over the past several years, NEIT has been actively involved in default management programs. Among the various measures that we implement are: loan entrance counseling; loan exit counseling with graduates and dropouts; interceding on behalf of lenders and servicers with students; and providing skip tracing assistance to lenders and servicers. We recently obtained the entrance and exit videos developed by the Career Training Foundation to supplement our existing default management programs.

We have been working extremely closely with our principal guaranty agency, the Rhode Island Higher Education Assistance Authority (RIHEAA), to track our default rate. Last week we were informed by RIHEAA that our net cumulative default rate was 8.08%.

We were therefore extremely dismayed and concerned to learn that our default rate as calculated by the Department of Education, and published by the Providence Journal Bulletin, was 39.7%. Upon investigation, we subsequently learned that this default rate is based on a total number of only 73 students who allegedly entered re-payment status in FY 1986. With a student enrollment in 1985 - 1986 numbering in the thousands, we would expect ten times as many students to be entering re-payment status in that time period.

Last week, a Department of Education official indicated that the tape dump submitted by RIHEAA to the Department for FY 1986 did not have any students in re-payment status. According to this official, to estimate our default rate department personnel compared students in promissory or in-school status in the FY 1985 tape dump, and if these students did not appear in similar status in FY 1986, the students were presumed to be in re-payment status.

Today we were informed by the Executive Director of RIHEAA that RIHEAA is unable at this point in time to construct the cohort default rate for FY 1986. It is the Executive Director's opinion that an 8.08% net cumulative default rate should not translate to a 39.7% cohort default rate.

Obviously, something is fundamentally wrong with the data and the methodology. We respectfully request that the Department provide us the names of all students who entered re-payment status in FY 1986, and the names of all defaulters in FY 1986 and FY 1987, the respective amount of the default, and any dollars recovered.

We fully support the Department's and the Administration's efforts to address the default problem. However, we are very seriously concerned as to the accuracy and reliability of the data and the methodology that is being used to calculate an institution's default rate. The publication of this default rate in both the local newspaper as well as in the nationally-distributed

Chronicle of Higher Education with no clarification whatsoever puts New England Institute of Technology in the worst possible light and could seriously impair our reputation. Since so much attention has been paid to the unsubstantiated linkage between default rates and the quality of a particular institution, students, parents, banks, guaranty agencies and accrediting agencies could have serious questions about New England Tech unless they were completely appraised of the inaccuracies regarding the default rates as published.

I urge you to review the procedures established by your department regarding the measurement of an institution's default rate. Because incorrect and statistically insignificant data were used to portray our college as having a grossly inaccurate default rate, I urge you to consider any and all means available to you to redress this very unfair situation. I respectfully suggest that no provisions specified in the final regulations become effective until such time as the data are accurate and the measurement of an institution's default rate is truly meaningful.

I appreciate your attention to these matters, and offer whatever assistance I can provide in your deliberations.

Very truly yours,

Richard I. Gouse
President

cc Senator Claiborne deB. Pell
Stephen Blair
Ian Volner
Dr. Daniel S. Maloney

PREPARED STATEMENT OF JOHN G. PUCCIANO, PRESIDENT ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

Mr. Chairman. Members of the Subcommittee on Education, Arts and Humanities. As president of the Association of Independent Colleges and Schools (AICS), I would like to present the views of the Association and its members on two issues which affect the operations of those institutions and their students -- Department of Education final loan default regulations and final regulations governing the evaluation of academic course measurement for student aid purposes.

Overview of AICS

The Association of Independent Colleges and Schools has a membership of almost 1200 institutions and colleges. Its institutions range from business or specialized schools offering training up to one year in length to junior and senior colleges offering recognized associate, baccalaureate and graduate degrees.

Approximately 750,000 students are enrolled in these institutions, representing a broad range of income and racial backgrounds.

Reference Materials

Accompanying my remarks are the following materials to which I will refer or which I urge you to read:

- specific detailed comments by AICS on the ED final regulations on loan defaults, published June 1, 1989 in the *Federal Register*

- suggested legislative language on the definition of "default rate" (attachment II); language modifying the "premiums and inducements" statutory provisions (attachment III); and language permanently defining an "academic year" in the law (attachment IV).
- a white paper discussing facts about the private career college and school (PCCS) sector

LOAN DEFAULT PREVENTION AND LOAN ACCESS ASSURANCE

The final regulations published on loan default issues by the Secretary on June 1, 1989 represented a constructive change from the proposed regulations. In general, AICS believes that the Secretary's thrust is correct and that the regulations will indeed result in some improvement in defaults in the federal loan programs.

In particular, we strongly endorse a concept initially proposed by AICS over a year and a half ago to establish default management plans for schools experiencing high default rates for their graduates.

Enclosed for your information is a detailed assessment of specific provisions in the final default regulations from AICS's perspective. Our concerns are still many and we hope that the Congress will respond to those concerns affirmatively.

My submission today focuses in large part on the very basis of all default actions -- the data upon which the default rate is calculated and the manner in which the default rate is calculated.

Based on the inaccurate data, we believe that the implementation of the final default regulations severely distorts what is going on in the real world and is unfair to most institutions and students affected by the default rate calculation.

1. Default Rate Calculation

Since the inception of the federal loan programs, the default rates for the programs and the institutions involved have been based on loan volume. This type of calculation is used in most other federal programs and is the standard in the commercial banking industry.

"Fiscal year default rate" or "cohort rate" means, according to the recently published regulations, that for any fiscal year in which 30 or more current and former students at the institution enter repayment on Stafford or SLS loans received at the institution, the percentage of those borrowers who default before the end of the following fiscal year. If there are fewer than 30 students entering repayment in any one fiscal year, a three-year average will be used.

Cohort rates which measure the default experience of a set of borrowers:

- are vulnerable to a single year fluctuation
- tend to be higher than an annual rate because they over represent the default experience of the high-risk borrowers, those most likely to default, because they typically borrow fewer dollars per loan than low-risk borrowers

- exaggerate the default rate because they make no distinction between borrowers who default on the entire loan and those who repaid a portion of their loan
- make no provision for recognizing payments or collections made after the initial default occurs.

In contrast, a cumulative default volume rate measures the percentage of defaults since the program began and an annual default volume rate measures the percentage of loans in repayment in a particular year. Such calculations generally take into account all collections/payments made on a given loan.

AICS RECOMMENDS THAT THE DEFAULT DEFINITION BE STATUTORILY MANDATED AND THAT IT BE BASED ON LOAN VOLUME, TAKING INTO ACCOUNT ALL COLLECTIONS AND PAYMENTS (see recommendation attached).

2. Data Problems

In addition to the inherent flaws in using a cohort default rate based on borrowers and not dollars, the data released by the Department on June 1, 1989 for FY 1986 contains many flaws.

The Department generates default rates based on information provided by the guarantee agencies on a tape dump. Until recently, participation by guarantee agencies in the tape dump procedure was voluntary and was to be used for budget purposes, oversight, and general statistical information purposes. Even if guarantee agencies submitted the tape, often fields were left blank. Of particular importance was the fact that the "student status" field was often left blank.

Guarantee agencies have been directed by ED to provide accurate information which should be reflected in the recent information collected for FY 1988. However, the data used by the Secretary, and which may be used to implement some of the provisions in the final regulations (e.g., delayed certification of loans for institutions with default rates greater than 30 percent has an October 1, 1989 implementation date), has been generated from the incomplete and inaccurate FY 1986 data. This data may never be corrected.

ED has just returned tapes back to 28 guarantee agencies because of incomplete data. The incomplete data generally are from older loans and probably are not available. These data are the same which served as the basis for the ED Inspector General to advise against the use of the FY 1986 data two years ago.

Because the tape dump combines the records from all of the guarantee agencies, institutions serviced by more than one guarantee agency must have access to the Department's data. An institution needs this data not only to attest to the validity of the data, but to follow up on those borrowers who have defaulted on their loans. However, the Department has indicated that generating these lists is expensive and has not offered to provide this information. The default data excludes several colleges from the list and, for other institutions, reflects a considerably higher default rate than shown in earlier default rate listings.

AICS RECOMMENDS THAT CONGRESS REQUIRE THAT THE DEFAULT DATA BE CORRECTED PRIOR TO IMPLEMENTATION OF THE REGULATORY REQUIREMENTS.

3. Loan Access

Access to Stafford Loans by private career school students has deteriorated in the last several months. Information from lenders confirms that a change in lender attitudes has occurred and that many large lenders have dropped from or severely restricted participation in the program.

Several secondary markets serving the student loan program have implemented restrictions on loan purchases that directly undermine student access. The Nebraska Higher Education Loan Program (NEBHELP), for example, announced that it has ceased purchasing student loans made to students attending approximately 200 trade schools because of concerns in the areas of default rate, delinquency, cancellation, and refund. The NEBHELP action triggered corresponding actions by dozens of lenders who had relied on NEBHELP as their secondary market.

Lender concerns regarding the Stafford Loan program have been raised by the occurrence of major servicing problems on loans held by the California Student Loan Finance Corporation (CSFLC). Alleged violations of the Department of Education's due diligence and servicing standards resulted in the invalidation of the guarantee status of hundreds of millions of dollars in Stafford loans which were primarily made to students attending proprietary institutions. Lenders have responded by avoiding loan portfolios requiring high levels of due diligence on the theory that the best way to avoid due diligence violations is to avoid loans requiring due diligence. Several other large lenders in California have dropped from the program altogether.

More recently, the Texas Guaranteed Student Loan Corporation (TGSLC) announced a number of policy initiatives designed to ensure the long-term viability of the agency. Many of the actions proposed are direct responses to problems created by an increasing volume of loans to high-risk student borrowers by the agency. Among the policy initiatives taken is the implementation of a default initiative involving closer monitoring of the ability of individual schools to administer the Stafford Loan program. Depending on the default rate of the institution, a compliance review or a default reduction agreement may be required as a condition of remaining eligible in the program. Programs similar to the Texas initiative are expected to be adopted in other States, with one possible outgrowth being a decrease in the availability of Stafford Loans to proprietary school students.

Citibank, the largest lender in the Stafford\SLS Loan programs, recently virtually terminated lending to students attending institutions with default rates above 25%. Other banks have followed Citibank's lead.

Another factor affecting the availability of Stafford Loans to high-risk borrowers is a proposed Treasury Department regulation altering the calculation of arbitrage on tax-exempt student loan bonds by secondary markets. The proposed regulation would effectively eliminate the use of tax-exempt financing for the purchase of student loans. Since many of the secondary markets serving lenders making loans to private career schools depend on these secondary markets to purchase the loans, eliminating this source of financing will result in further undermining student access to Stafford Loans.

In addition to these considerations, many other factors exist which are discouraging lender service to high-risk borrowers. These factors included the limited yield on Stafford Loans, the higher administrative costs associated with loans with a high delinquency or default level, and the high cancellation or return rates on such loans. Together, all factors have led to a situation where a real possibility exists of large numbers of students attending AICS institutions being unable to secure Stafford Loans. **AICS RECOMMENDS THAT THE SO-CALLED PREMIUMS AND INDUCEMENTS PROVISION OF THE LAW BE MODIFIED TO PERMIT THE PAYMENT OF FEES TO SECONDARY MARKETS, GUARANTORS, AND/OR LENDERS BY POSTSECONDARY INSTITUTIONS TO UNDERWRITE SOME OF THE ADMINISTRATIVE COSTS OF HIGH-RISK LOANS** (see attached recommendation).

ACADEMIC COURSE MEASUREMENT FOR STUDENT AID PURPOSES

The Secretary of Education issued final regulations on April 5, 1988 regarding institutional eligibility. The Department provided that if a school must indicate the number of instructional or classroom contact hours in a state's application or approval process to operate an educational institution, the U.S. Department of Education will conclude that the institution may measure its coursework for student aid purposes, only in clock hours, irrespective of whether the state law, regulation, or practice specifically permits or does not prohibit the use of credit hours.

The provisions of the April 5, 1988 regulations have caused substantial controversy because they provide for considerable involvement of the U.S. government in the interpretation of state law and regulation. The regulations would also require that an estimated 1,000 to 1,500 postsecondary institutions who currently measure under a credit hour system would have to change to a clock hour system or lose their federal eligibility for student aid. This conversion would have to occur in spite of the fact that most of the states specifically permit these institutions to measure in credit hours.

Congress was involved in this issue approximately one year ago when it determined that the Department of Education had not sufficiently reviewed the impact on institutions in the various states and, by legislation, delayed implementation of those portions of the final rules dealing with the academic course measurement issue. Subsequently, the Assistant Secretary for Postsecondary Education complied with the statutory delay and presumably ED has investigated the impact of the regulatory provision.

To date, at least to our knowledge, the Department has not made known to the education community or the Congress any of its findings. In fact, many states are quite concerned that institutions in their state, for federal student aid purposes, will be significantly injured by the interpretation by ED.

The major basis upon which we seek Congressional action is that the ED rule is arbitrary and violates statutory prohibitions against federal control of education. The House of Representatives Committee Report on the Higher Education Amendments of 1985 chastises the Department for its handling of the clock/credit hour conversion issue. The Committee seriously questioned the statutory authority for such a ruling, stating it was contrary to section 432 of the General Education Provisions Act (GEPA) which specifically prohibits the Department from exercising any direct supervision or control over the curriculum, program instruction, or administration of an educational institution.

The House Committee went on to state, "that as long as an educational institution utilizes generally accepted educational principles and standards in evaluating its units of study or courses of instruction, it is inappropriate for the Department to intrude upon the institutional prerogative by locking a school into a singular system of unit or course measurement."

We currently estimate that the rule will adversely impact students in approximately 25 states. We continue to believe that the Department does not understand the final and actual impact of the rules on academic programs in each of the various states nor does ED currently intend to release prospectively its interpretation of how it will interpret state law and regulation during the eligibility and audit determination processes.

AICS RECOMMENDS THAT THE CONGRESS DELAY IMPLEMENTATION OF THE REGULATORY PROVISIONS RELATING TO ED INTERPRETATION OF STATE ACADEMIC MEASUREMENT REQUIREMENTS AND THAT THE LAW BE MODIFIED TO DEFINE CLEARLY THE USE OF CLOCK AND CREDIT HOUR MEASUREMENT FOR STUDENT AID PURPOSES (see attached recommendation).

Attachment I

DEFAULT REDUCTION REGULATIONS

EFFECTIVE 45 DAYS AFTER JUNE 5, 1989 PUBLICATION OR JULY 20

Section 668.15 Additional factors for evaluation administrative capability.

1. **Regulatory Provision:** If the GSL or SLS fiscal year default rate exceeds 20 percent for any fiscal year after FY 1988, the Secretary may require submission to ED and the guarantee agency the following information:

   AICS Concern: The FY 1986 cohort rate data published by the Department of Education on June 1, 1989 is incomplete and inaccurate. Some institutions do not even appear. In fact, the Assistant Inspector General for Audit advised the Assistant Secretary for Postsecondary Education on 3/13/87 that the use of the Guarantee Agency Tape Dump will result in ED's making "incorrect decisions in monitoring and managing the multimillion dollar GSLP." Twenty-eight tapes have recently been returned to guarantee agencies because of missing data which includes missing status codes and social security numbers. Even if this data were available, guarantee agencies handled deferments and forbearance provisions differently.

   Regulatory Provision: "Fiscal year default rate" means for any fiscal year in which 30 or more students at the institution enter repayment on a GSL or SLS loans, the percentage of those students who default before the end of the following fiscal year. For any fiscal year where there are less than 30 students in repayment, an average of the three most recent fiscal years will be used.

   AICS Concern: The use of a cohort rate is vulnerable to single year fluctuations and tends to be higher than an annual rate. The cohort rate does not take into account those who defaulted on their entire loan or those who have repaid a portion of their loan and makes no provision for recognizing payments or collections made after the initial default occurs.

   a. **Regulatory Provision:** A comprehensive written analysis of the causes of defaults by its students in the first two years of repayment during the three most recent calendar years ending six months prior to the request.

      AICS Concern: How can schools factually determine why any group of students default on loans? Even if one assumed that some causes of defaults were caused by institutional actions, defaults are also caused by

personal reasons of the students and their families, and can be also caused by the actions of lenders, guarantee agencies or secondary markets. It is unclear what would constitute an acceptable explanation.

Furthermore, in most cases schools have been unable to learn the identification of delinquent and defaulted students. In a number of cases, lenders and guarantee agencies have refused to share information from schools when the new information could have eliminated the delinquency or default. In some cases, the lender has not updated its information on a borrower when new information is provided by the institution, such as a change of address, which could have prevented a default.

b. **Regulatory Provision:** In the case of institutions with non-baccalaureate degree programs, a statistical analysis showing pass rates for the three most recent calendar years ending not less than six months prior to the request and placement rates and completion rates for the three most recent calendar years ending not less than 18 months prior to the request. Placement rates are for all students scheduled to complete the program and completion rates are to be broken down by students in the aggregate and segregated by Title IV aid recipients, high school graduates and GED holders, and ATB students.

   AICS Concern: If this is requested 45 days after implementation, this would mean that the data should have been collected for calendar years as early as 1986 in the case of pass rates and 1985 in the case of placement and completion rates. Not only may the institution not have the data, but in the case of pass rates, the institution may not even be able to obtain the data from the state licensing board.

c. **Regulatory Provision:** A written description of all additional steps taken by the institution beyond those required to reduce defaults.

   AICS Concern: None.

d. **Regulatory Provision:** Any other information as required by the Secretary.

   AICS Concern: There appears to be no limit to the type of information the Secretary may request or what is reasonable.

2. **Regulatory Provision:** A school with a default rate over 20 percent could be required to implement specified reasonable and appropriate default reduction measures or a default management plan. The contents will be established by the Secretary based on a review of the school's analysis of its causes of default, recommendations by the guarantee agencies, consultation with the school, and information presented by the school at any informal hearing.

   A loan on which a payment is made by the school, its owner, agent, contractor, employee, or any other affiliated entity or individual, in order to avoid default by the borrower, is considered as in default.

   AICS Concern: Some institutions pay back the total loan, including the origination fee, when a refund is due to the lender to ensure that the borrower does not go into default. Does this provision apply to all repayments by third party or only when the borrower is already in default?

Section 682.410 Fiscal, administrative, and enforcement requirements.

3. **Regulatory Provision:** If the institution has a default rate which exceeds 20 percent, the principal guarantee agency in the state will conduct a program review.

   AICS Concern: It is doubtful that all guarantors have the financial and personnel resources to conduct these reviews.

Section 682.604 Processing the borrower's loan proceeds and counseling borrowers.

4. **Regulatory Provision:** All institutions are required to conduct initial counseling with each GSL or SLS borrowers, either in person or by videotape presentation, prior to the release of the first disbursement of the loan. The counseling should include the seriousness of the repayment obligation, the consequences of default, and the fact that repayment is required even if the program is not completed or the borrower is dissatisfied.

   The school is required to also conduct in-person exit counseling with each borrower. The counseling should include the provision of the average indebtedness of students at the institution, anticipated monthly repayments, the review of repayment options, and suggestions for debt management strategies (This was already required in the Higher Education Act, as amended).

   AICS Concern: None.

Section 682.607 Payment of a refund to a lender.

5. **Regulatory Provision:** Refunds are to be made within 60 days of the earliest of the student's notification of withdrawal, the expiration of the academic term, the period of enrollment for which the loan was made, or the date determined by the school; or within 30 days after the expiration of an approved leave of absence.

   AICS Concern: None.

EFFECTIVE AFTER OCTOBER 1, 1989

Section 682.603 Certification by a participating school in connection with a loan application.

6. **Regulatory Provision:** For institutions with a default rate over 30 percent, institutions must certify the loan application in order to ensure that the delivery of the proceeds to the borrower's account or the delivery to the student does not occur prior to the 30th day of enrollment.

   AICS Concern: We believe the holding period should be 15 days. Further, does this mean that the school may certify the loan prior to the start date (since the school can make refunds within 60 days) and hold the check for endorsement until the 30th day? Further, the Department needs to define what the "days of attendance" during the period of enrollment means. Is it calendar days or actual days of attendance? The latter could be a rather long period for those who attend only once or twice a week.

EFFECTIVE AFTER DECEMBER 1, 1989

Section 668.44(c)(1) Institutional information.

7. **Regulatory Provision:** Prior to a student's enrollment or execution of the enrollment contract in an undergraduate non-baccalaureate degree program, the institution shall disclose:

   - All licensure or certification requirements established by the State

   - The pass rates of graduates on any licensure or certification examination for the most recent calendar year that ended not less than 6 months prior to the date of disclosure.

- **The job placement rate for students who were originally scheduled to complete the program in the most recent calendar year that ended not less than 18 months prior to the date of disclosure. In calculating the rate, the institution shall consider as not having obtained employment for any graduate for whom the institution does not possess evidence in the file showing employment in the occupation. However, the institution may exclude from the calculation any graduates who state in writing that he/she chose not to obtain employment or who fail to respond within 60 days to a questionnaire.**

- The completion rate for students in the program for the most recent calendar year that ended not less than 18 months prior to the date of disclosure. The rate is calculated by determining the percentage of students enrolled in the program successfully completed training within 150 percent of the amount of time normally required to complete the program. The percentage would include those completing the program or those who obtained full-time employment in the occupation for which training was offered.

AICS Concern: These rates do not recognize those factors that are beyond the control of the institution as well as the type of student population enrolled at a particular institution.

Private career schools seem to be the sector targeted for this requirement. As stated in the discussion section of the regulations (page 24123), this provision "would not apply to a program that is primarily intended as preparatory for, and acceptable towards, a baccalaureate or equivalent level degree (e.g., Associate of Arts degree programs offered by community colleges), as distinguished from a course of study designed to provide a complete vocational training program."

Furthermore, as stated earlier, some of the information, such as pass rates on licensure exams, may not even be available.

EFFECTIVE AFTER DECEMBER 4, 1989

Section 682.411 Due diligence by lenders in the collection of guarantee agency loans.

8. **Regulatory Provision:** If the agency that guarantees the loan offers preclaims assistance, the lender shall request assistance within 10 days of availability and notify the school not later than 30 days. This only applies to loans made after 12/4/89, and if the lender holds more than one loan

and loans were acquired prior to 12/4/89, requirements are satisfied for all loans.

The discussion section points out that the Federal Trade Commission has determined that pre-default collection efforts are not covered by the Fair Debt Collection Practices Act (FDCPA) and therefore, the institution may contact a borrower during the grace period or after the school receives a copy of the lender's preclaims assistance request.

AICS Comment: Strongly supports this provision.

EFFECTIVE AFTER JUNE 5, 1990

682.606 Refund policy.

9. **Regulatory Provision:** Institutions with default rates above 30 percent are required to implement a pro rata refund policy for students who received GSL or SLS/PLUS loans. This means the refund by the school may not be less than that portion of the tuition, fees, room and board, and other charges which is equal to the proportion of the period of enrollment for which the student has been charged that remains on the last recorded date of attendance, rounded up to the nearest 10 percent of that period, less any unpaid charges, plus an administrative fee of the lesser of 5 percent or $100.

   The provisions do not apply for any student whose withdrawal date is after the earlier of the halfway point (in time) for the student's program or 6 months after the commencement of the program.

   AICS Concern: AICS has supported a "proportionate times two" policy which would allow the school to earn the same amount of tuition throughout the program up until the midpoint, where the institution would have earned 100 percent of the tuition.

   AICS does not support the concept of applying a policy only to students receiving a GSL, SLS, or PLUS program loan. The policy discriminates against the cash-paying or Pell-only students who would be subject to another, less favorable refund policy.

EFFECTIVE ON OR AFTER JANUARY 1, 1991

Section 668.15 Additional factors for evaluating administrative capability.

10. **Regulatory Provision:** The Secretary may initiate LS&T action if the institution's GSL and SLS fiscal year default rate exceeds 40 percent for any fiscal year after 1989 and has not been reduced by an increment of at least 5 percent from the previous fiscal year or the fiscal year default rate exceeds:

    60 percent for FY 1989
    55 percent for FY 1990
    50 percent for FY 1991
    45 percent for FY 1992 or
    40 percent for any fiscal year after FY 1992

    AICS Concern: We object to the general policy conclusion that institutional default rates are totally or primarily within the control of the institution.

Section 668.90 Initial and final decision-Appeals.

11. **Regulatory Provision:** If a school wishes to avoid LS&T sanctions, the institution must carry out all the measures described in Appendix D defense. If the institution has acted diligently to implement the default reduction measures, the administrative law judge may not impose an LS&T sanction.

    AICS Concern: The institution is assumed guilty and must defend its innocence. Furthermore, the ALJ does not seem to have any discretion to modify the sanction of the Department., so that the ALJ decision could fall between "no sanction" and total affirmation of the Department position.

EFFECTIVE AFTER OMB APPROVES FORM

Section 682.610 Records, reports, and inspection requirements for participating schools.

12. **Regulatory Provision:** Institutions who must provide disclosure information to prospective students must provide the disclosures as provided in Appendix A to the Department of Education.

    AICS Concern: It is not clear what the Department will be doing with this information. For instance, will the information be published? Will it be used in program reviews?

Attachment II

DEFAULT RATE DEFINITION

Amend section 435 to add the following new subsections:

"(m) DEFAULT RATE. -- As used in this part, the term 'default rate' means a fraction, expressed as a percent -

(1) the numerator of which is the average of the previous three fiscal years (for which acceptable data is available) of (A) the total original principal of loans on which a default (as defined in section 435 (l)) occurs during such fiscal years, reduced by (B)(i) the total amount collected after the default and (ii) the total principal amount outstanding on loans in default made to high risk students of such institutions; and

(2) the denominator of which is the average of three previous fiscal years of the original principal amount of all loans, minus the principal amount loaned to high risk students, that were in repayment during such fiscal years."

"(n) HIGH RISK STUDENTS. -- For purpose of subsection (m) the term 'high risk students' means students whose student aid index under the Pell Grant needs analysis of subpart 1 of part A of this title is equal to or less than zero."

Rationale

Cohort rate calculations significantly overstate the default rate "problem" by failing to take into consideration many of the collections/repayments made after the loans enter default status. The loan volume default rate calculation is the most accurate rate and has been used in all federal loan programs since their inception.

Attachment III

PROVISION FOR ADMINISTRATIVE COSTS REIMBURSEMENT

Amend section 490 (c) by striking the period and adding the following at the end thereof:

> ", except that an eligible institution may pay a lender, guarantor, or secondary market an administrative fee based on the loan cancellation, delinquency or default rate experience at that institution."

Rationale

The amendment would permit postsecondary institutions to negotiate with the providers/participants in the federal loan programs to share some of the costs incurred by lenders, guarantors, and secondary markets. Currently, many of these providers/participants contend that lending to high-risk students or to students enrolled at certain institutions is too costly. This has led to a loan access problem at some institutions and in some geographic locations.

The current section 490 (c) provision has been interpreted to exclude any payments by an education institution to a lender. This restriction was not contemplated by Congress when it enacted section 490 (c) and unnecessarily restricts the ability of an institution from paying some of the attendant costs of processing and collecting loans from high-risk students in order to ensure loan access.

Attachment IV

ACADEMIC YEAR DEFINITION

Amend Section 481 (d) of the Act to read as follows:

> "(d)(1) ACADEMIC YEAR. -- For the purpose of any program under this title, the term 'academic year' shall be defined as :
>
> (A) Twenty-four semester or trimester hours or units, or 36 quarter hours or units;
> (B) Seven hundred twenty clock hours of supervised training; or
> (C) Seven hundred twenty clock hours in a program of study by correspondence.
>
> (2) Notwithstanding paragraph (1), if an institution of higher education, or an eligible institution for purpose of part B of this title, is licensed by the State in which it is located to provide a course of study the duration of which is (A) specifically required by State law or regulation to be measured on a clock hour basis, or (B) specifically prohibited by State law or regulation from being measured in credit hours, that institution may not measure the length of the course of study or its academic year for that course of study on either basis for purposes of this title. In all other States, the institution may measure the length of the course of study or its academic year for that course of study on either basis for purposes of this title, but the recognized accrediting body's assessment as to the number of credit hours constituting the course of study shall apply in the event the institution chooses to measure the length of the course of study or its academic year for that course of study on a credit hour basis."

Rationale

The amendment:

-- partially equalizes the longstanding discrepancy between the amount of academic credit, for federal student aid purposes, given to instruction provided in programs measured in clock hours as compared to those programs measured in credit hours. ED clock/credit hour conversion ratios are inconsistent and provide an incentive to measure in credit hours; an academic year for a credit hour program requires approximately 360 instructional hours. Further, the measurements do not comport with the requirements of the Veterans Administration (648 hours for theory-related work and

792 hours for shop-related work) and the Social Security Administration (720 hours for all programs).

-- clarifies the impact of state law/regulation on the authorization of an institution to measure in either clock or credit hours by allowing an otherwise eligible institution to measure, for federal student aid purposes, in either clock or credit hours if approved by a recognized accrediting body using generally-accepted standards for calculating and converting academic credit. The final regulations issued by the U.S. Department of Education, and the subsequent interpretation of those regulations by ED officials, jeopardizes academic programs in many states and the ED has not yet been able (or willing) to assess the impact of the regulations, as interpreted, on students and institutions in the various states.

JUST THE FACTS, PLEASE

ABOUT PRIVATE CAREER COLLEGES AND SCHOOLS

Presented by
The Association of Independent
Colleges and Schools

1989

WHO IS AICS?

The Association of Independent Colleges and Schools was founded in 1912 and currently has a membership of 665 diverse business schools and another 371 branch campuses. Its institutions range from business or specialized schools offering training of up to one year in length to junior and senior colleges offering recognized associate, baccalaureate, and master's degrees in 72 programs ranging from accounting to word processing.

Approximately 700,000 students enroll in these institutions each year. These students come from a broad range of economic and racial backgrounds.

Over 90 percent of AICS-accredited institutions are taxpaying business corporations; all of the institutions are non-public. In common with all non-public institutions, they are either entirely or primarily tuition-dependent for operating revenues.

AICS member institutions are accredited by the Accrediting Commission of the Association of Independent Colleges and Schools. Since 1953, the AICS Accrediting Commission (formerly known as the Accrediting Commission for Business Schools) has engaged in the evaluation and accreditation of private career schools and colleges. Since 1956, the Accrediting Commission has been officially designated by the U.S. Commissioner of Education as a nationally recognized accrediting agency.

WHAT DO THE FACTS LOOK LIKE?

The facts have been blurred — especially during the past two years. Department of Education officials, members of Congress, other sectors of private education, and the media have made allegations about Private Career Colleges and Schools (PCCSs) which are inaccurate, **unsubstantiated**, or **anecdotal.**

The facts need to be clear — especially now when a number of legislative and regulatory proposals target the PCCS sector. While well-intended, they will probably harm the very students they intend to protect: those who are most economically or educationally disadvantaged.

LET'S BEGIN TO SET THE FACTS STRAIGHT...

- We believe the PCCS sector has been more resolute in seeking administrative and educational quality than policymakers, the press and the public have recognized or acknowledged.
- In fact, the PCCSs, associations representing the institutions, and their accrediting bodies have been singularly aggressive in:
  - taking administrative and legal actions,
  - strengthening accreditation criteria,
  - advocating legislative and regulatory changes, and
  - providing student aid and default prevention training

  in order to solve the real problems.
- AICS is adamant that any changes in the law or regulations **should not discriminate** against a particular sector of higher education because of the nature of the institutions' corporate organization or against a group of students because of their socio-economic or educational background.

Our intent in this document is to summarize the various actions taken by the accrediting body and the association, reaffirm legislative and regulatory recommendations, and dispel some of the myths surrounding the PCCS sector.

WHO IS RESPONSIBLE FOR WHAT?

The Triad Principle

The roles of the states, accrediting bodies and federal government in governing Private Schools are separate and distinct and generally misunderstood. An explanation of the **TRIAD CONCEPT** follows:

1. Federal: determine eligibility and monitor institutional administration of federal student aid.
2. State: authorize operation and monitor business practices for the protection of the public, primarily students.
3. Accreditation: evaluate and, through the peer process, help institutions and programs be relevant to students.

Of the three roles, accreditation is voluntary. The other two rely on legislation and regulation. And, each has a right to expect the other two to do their job.

But, that balance is seriously threatened. Misperceptions abound.

That is why we must always get back to the facts.

The accrediting bodies are not primarily responsible for monitoring consumer protection or the administration of student aid — but they do review those areas. The states and federal government must also execute their responsibilities.

LET'S TAKE A LOOK AT THE AGGRESSIVE POSTURE THE AICS ACCREDITING COMMISSION HAS TAKEN...

The message from the Commission to member schools has been loud and clear: Neither academic dishonesty nor operational malpractice will be tolerated.

To ensure that this policy is enforced, the Accrediting Commission of AICS has taken several powerful initiatives:

- Adopted equitable refund policies (U.S. Department of Education approved.)
- Required testing of non-high school graduates.
- Curtailed the proliferation of non-main campus sites.
- Inaugurated quarterly meetings of accrediting executives.
- Prohibited all forms of false advertising and commission-based student solicitation by non-school personnel.
- Issued strict criteria controlling all pre-enrollment activities.
- Developed guidelines, with Department of Education input, for administering programs for Ability-to-Benefit students and English-as-a-Second-Language.
- Developed testing criteria with the National Association of Trade and Technical Schools and the American Council on Education.
- Currently developing criteria to evaluate institutional effectiveness through outcomes assessment, e.g., completion and placement rates.

HOW HAS THE AICS ACCREDITING COMMISSION ENSURED OBJECTIVITY?

No other commission requires the kind of disclosure and exposure that the Accrediting Commission of AICS does. Commissioners must present themselves and their credentials to the total membership and compete in open election for every position. Conflict-of-interest is carefully guarded against.

At least three commissioners are appointed from the public at large.

Each commissioner signs a canon of ethical responsibility.

Accredited AICS institutions are evaluated by trained teams comprised of deans and faculty from public and private colleges, universities, practicing professionals and executives of state regulatory bodies.

Checks and balances against inaccurate or improper accrediting decisions occurs throughout the process.

All schools are accorded procedural due process which involves full reviews and all administrative efforts to remedy the problem before any action is taken.

HOW DOES AICS STAY CURRENT WITH ITS ACCREDITATION?

- By requiring annual financial and institutional reports,
- By maintaining a 3 to 5 year statistical picture on each institution and analyzing it each year,
- By acting immediately if a problem surfaces and instituting necessary safeguards.

HOW OFTEN DOES THE AICS ACCREDITATION COMMISSION MEET?

It convenes three times annually and is in session for six full days at each to:

- discuss issues,
- establish policy,
- receive recommendations from committees and members,
- conduct formal appeal hearings for schools in trouble, and
- review accreditation reports.

HOW MANY ACTIONS DID THE AICS ACCREDITING COMMISSION TAKE BETWEEN 1986 AND 1989?

1,627 actions, ranging from approval of new educational programs to negative sanctions.

Generally, by the time policymakers and the media become aware of alleged problems at private career colleges and schools, the accrediting body has been engaged in taking action against the school for several months — sometimes for a year or more. The requirement for due process and confidentiality prevents the accrediting body from disclosing most of its negative actions to the public-at-large until the appeals process is completed.

HOW DOES AICS IMPROVE THE QUALITY OF EDUCATIONAL PROGRAMS IN MEMBER INSTITUTIONS?

By being committed to excellence and by:

- Creating the Career Programs Assessment test (CPAt),
- Providing a wide range of training opportunities for teachers and school administrators,
- Designing and sponsoring education conferences and conventions,
- Implementing the quality movement in AICS schools,
- Hosting a Quality Symposium and Quality Steering Committee that monitors all continuing quality efforts.

WHAT IS THE CPAt?

The CPAt is a diagnostic test, created by the AICS and the American College Testing Service, that is designed to measure the basic skills of entering students. Now used by approximately 400 AICS institutions, the CPAt identifies the strengths and weaknesses of potential students in the areas of reading comprehension, language usage, and numerical skills. It is administrated to all incoming students in most institutions. It is also used as the diagnostic instrument for high risk, "Ability-to-Benefit" students.

The CPAt was designed specifically for private career school students and is normed on that population. Along with the ability to be identified with a reputable national testing company, this test has provided our members with a valid, reliable and objective instrument, regular computer reports detailing student characteristics for each institution as well as for the association, and the opportunity to participate in follow-up reports that track the performance of students throughout their stay in our institutions. The CPAt has been an excellent response to the much needed improvement in the area of admissions testing.

WHAT AREAS DO AICS EDUCATION WORKSHOPS AND CONFERENCES COVER?

- Quality Assurance
- Leadership
- Placement
- Marketing
- Financial Aid Administration
- Admissions
- Default Prevention
- Operations
- Accreditation

WHY THE EMPHASIS ON QUALITY?

AICS understands that quality action is the only way to ensure long-term success — for the student and the institution. In addition to conducting "quality" workshops for members, AICS has just published a book entitled, Quality Assurance for Private Career Schools. It was sent to all member schools and will be used as a text for training.

WHAT LEGISLATIVE AND REGULATORY CHANGES DOES AICS PROPOSE?

- Require that consideration be given, in the calculation of the institution's net default rate, to the characteristics of the student body population and the historical propensity of that population to default.
- Credit guarantors for serving high-risk populations, those most likely to default, in determining the default trigger for purposes of federal reinsurance.
- Establish a common definition for a "default" and require that that definition be used by ED and participants in the program for all calculations and actions.
- Require all guarantors and lenders/holders to report data based on standardized definitions and forms.

- Require all default data and rates be calculated based on net loan volume, i.e., include all payments, collections and offsets against the loan principal received by the lender, guarantor or ED.

- Require guarantors to provide delinquency lists to institutions and require instructions to comment on the accuracy of the lists prior to claims being filed by the guarantor.

- Maintain additional information on borrowers, including family and personal references. The institution would also be required to recheck these references at the time of the second disbursement.

- Enhance borrower counselling by institutions at the time of loan origination.

- Prohibit the making of GSLs for more than the amount requested by the student and certified by the institution.

- Limit the number of GSLs to two in a calendar year, where the borrower is otherwise eligible.

- Permit education institutions to purchase defaulted loans from the federal government or lenders/holders/guarantors in order to reduce the institution's default rate.

- Require that any LS&T action taken against an institution be based on non-discriminatory standards, including prohibitions against LS&T actions based on type or control of institution.

WHAT HAS AICS DONE TO PREVENT OR REDUCE DEFAULTS?

To better inform and educate its member schools and their students, AICS has played a key role in sponsoring the Private Career School Default Management Initiative which includes a 130-page manual, 60 workshops, entrance/exit videos, instructor guide and student guide — the only default initiative in all of postsecondary education.

WHAT WILL BE THE FUTURE WORKFORCE NEEDS OF THE NATION?

Fewer young people and homemakers will join the workforce during the next few decades. Our national challenge is to find ways to increase output per worker while adjusting to a changing economy.

According to *Workforce 2000*, economic growth may be slow in the next 20 years. The economy will become more and more dominated by services, and less and less by manufacturing.

Tomorrow's workforce will increasingly come from the nation's economically and educationally disadvantaged populations.

More and more workers will require postsecondary educations, but fewer will require baccalaureate degrees.

Workforce 2000 states that the economy will be shaped by five demographic "facts" over the next 13 years:

- The population and the workforce will grow more slowly than at any time since the 1930's.
- The average age of the population and the workforce will rise, and the pool of young workers entering the labor market will shrink.
- More women will enter the workforce, although the rate of increase will taper off.
- Minorities will be a larger share of new entrants into the labor force.
- Immigrants will represent the largest share of the increase in the population and the workforce since World War I.

WHAT WILL THE STUDENT BODY OF THE FUTURE LOOK LIKE?

Workers who will join the labor force between now and the year 2000 are not well-matched to the jobs that the economy is creating. Many new workers, some of whom are disadvantaged, have relatively low education skills. **A gap is created because the new economy will require advanced skills**.

This presents a great challenge to both workers and employers. The PCCS sector is prepared for the challenge and is ready to meet it.

The key factor in improving the economic prospects of individuals and of the country as a whole is education and training.

LET'S LOOK AT THE STUDENTS SERVED BY PCCSs...

Private career school attendees are more likely than members of other student groups to be **female** and from **ethnic minority groups**. Their ability quartile scores and family socioeconomic background levels are lower than those of any status group except for that of no postsecondary training. On the other hand, many enrollees have already completed two- and four-year degrees before attending a PCCS.

HOW SUCCESSFUL ARE THESE STUDENTS?

Training in private schools compensates in large degrees for socioeconomic disadvantages faced by this group. **Individuals who attend private career schools have a successful track record**. They are most likely to do the following:

- **Complete a program leading to a license,**
- **Report full-time employment during the follow-up period,**
- **Indicate that they had received formal training for their current positions, and**
- **Say they learned most of their job skills in school.**

For those students who went to private career schools, particularly when postsecondary credentials were earned, average income levels exceeded those of any other educational option among individuals working full time.

WHAT IMPACT DO PCCSs HAVE ON THE COMMUNITIES IN WHICH THEY RESIDE?

Substantial!

PCCSs have a direct and indirect economic impact on their communities. The research shows that short-term programs offered by private career schools lead to a rapid rate of economic return.

Because of advancing technology, the skills needed to do the jobs of the future are often not the skills that workers currently have. Massive amounts of retraining will be required.

The independent colleges and schools play an increasingly important role in meeting the nation's education and training requirements.

Career education continues to be the fastest growing component of postsecondary education. Enrollment in AICS member colleges and schools increased by more than 10 percent in just the two years from 1985 to 1987, as compared with about 2 percent for higher education as a whole. Similarly, employment at career-oriented proprietary colleges and schools increased 11.2 percent, as compared with about 4.7 percent for all of higher education, and 3.8 percent for the U.S. economy.

By the year 1990, it is projected that more than 1,000 AICS institutions will employ almost 40,000 faculty and staff to serve more than 800,000 students.

The independent career-oriented colleges and schools continue their impressive growth because of benefits they provide to students, to communities, and to taxpayers.

LET'S CLOSE THE SAME WAY WE BEGAN...WITH THE FACTS...AND JUST THE FACTS, PLEASE...

- Private career schools have the same retention rate as four-year colleges and a greater retention rate than vocational students enrolled at two-year public institutions (67% in AICS schools in 1989).
- Private career schools provide education for students at a much lower cost to taxpayers than public colleges.
- Every student enrolling in a private career school saves taxpayers $1,875 compared to enrolling in a community college and $3,625 compared to enrolling in a four-year public college.
- The cost of making loans to students in four-year schools with low default rates may be two times more expensive than making loans to private career school students with higher default rates.
- Private career school students pay a higher effective interest rate than borrowers with larger cumulative loan amounts.
- If one at-risk student succeeds because of a guaranteed loan, the long-term savings to society would cover the costs of over 65 defaults.
- Saving a few million dollars now by reducing opportunities for high risk students will cost billions of dollars in the future.
- Schools serving poor, academically risky students have higher default rates than schools serving less academically risky, middle-income students, but are meeting a challenge no other sector will attempt.

- The default rate has remained relatively constant for the past ten years.
- The cost of defaults has increased by 200 percent in five years, reflecting growth not in default rates but in loan volume.
- There is no universal technique used to calculate defaults.
- The two-year cohort measure proposed by former Secretary of Education Bennett makes the default problem appear much worse than it really is.
- Net defaults are less than 32 percent of the 1986 appropriation, not half as reported by the Department of Education.
- Defaults have historically made up just over 18 percent of program costs while interest subsidies represent over 77 percent. The relatively low interest rates in 1986 decreased the share of costs assigned to student subsidy and increased the share in default compared to historic averages.
- It will cost taxpayers about 36 cents over the long run to deliver a dollar a day of aid today. Defaults are about 6.5 cents of the 36 cents.

THE FACTS ARE CLEAR

The private career colleges and schools are essential for the continued competitiveness of our nation. AICS institutions have special capabilities which allow them to provide graduates with skills that meet the needs of tomorrow's employment market. Recognizing that its institutions often serve disadvantaged populations, AICS has taken progressive accreditation action and made substantial legislative/regulatory recommendations to improve the quality of programs and prevent misuse of federal dollars.

As the months and years go by, there probably will be continued debate regarding the role of private career colleges and schools. AICS wants to work with policymakers and the media to insure that the facts are just that — the facts. A more appropriate portrayal of private career colleges and the students they serve will help create a policy environment that ultimately serves everyone well.

AICS wants to provide any information which may enlighten an objective discussion of these issues.

PREPARED STATEMENT OF JAMES R. CRAIG, CHAIRMAN, ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

Mr. Chairman, the Advisory Committee on Student Financial Assistance is pleased to enter into the record comments related to today's hearing topics. I will direct my comments today toward two important issues: Stafford defaults and the Secretary's default initiative; and necessary changes in the Congressional Methodology.

STAFFORD DEFAULTS

As you may know, Mr. Chairman, the Advisory Committee has been concerned with and has actively considered the default issue since its first meeting. We presented testimony at a hearing before the House Subcommittee on Postsecondary Education in June of 1988. We also have committed considerable staff resources to commenting on proposed regulations dealing with defaults.

Throughout these activities, the Committee has adhered to several principles first proposed in its testimony in June, 1988. These principles include preserving access to loans for needy students, reducing default costs, and improving program management.

Underpinning these principles, however, is the recognition that efforts to deal with the default problem confront competing objectives. Policies that reduce defaults and thereby default costs or improve program management can severely affect access to Stafford loans for students from certain sectors of postsecondary education. Only policies that effectively balance these competing objectives through equitable, measured approaches will begin to stabilize the program and achieve important cost-savings and restore the faith in the program.

Mr. Chairman, the Congress mandated that the Advisory Committee examine institutional lending in the Part B programs. The Final Report to Congress, submitted on June 2, 1989, documents the powerful destabilizing effect that the default problem, in its many forms, is having on the Stafford program. Defaults, risk-sharing, and instability in the primary and secondary markets are inextricably linked. The potential for certain sectors experiencing increased difficulty with access to loans, and for guarantee agency lender of last resort programs to experience substantial strains under conflicting incentives and requirements, appears real.

Recently, the Secretary of Education proposed a comprehensive default initiative that represents an important and positive step toward addressing the default problem. Secretary Cavazos should be praised for the reasoned approach he employed in developing the Department's initiative. This approach relied on consultation and it is clear from the regulations that his staff took community suggestions and comments into account. The Secretary's initiative represents an eminently reasonable and effective approach for reducing defaults that avoids arbitrary measures. The strength of the regulations lie in providing most high default rate institutions the opportunity to undertake default reduction activities rather than automatic expulsion from the program.

A large measure of the ultimate success of this program will lie in ensuring timely and fair implementation. Implementation must be immediate in order to deal with an ever growing problem. However, this implementation cannot be premature; adequate and reliable data must exist if the program is to maintain support and avoid being mired in controversy surrounding the data and the resulting default rates. Disagreements concerning the validity of the default rates for individual institutions--especially when they are used as the grounds for Departmental actions--will decrease the effectiveness of the initiative and turn attention from solving the default problem.

NEED ANALYSIS

In the spring of 1988, the Advisory Committee undertook an evaluation of the Congressional Methodology (CM) and in particular the technical modifications that appeared to be necessary. In conducting this evaluation of the CM, the Committee identified changes that would improve the performance of the formula in a manner consistent with the intent of the statute.

The Advisory Committee submitted its first report to Congress in April, 1988, which dealt with need analysis. The report included several recommendations for changes to the CM and the Pell Grant formula, including the following:

Recommended Changes

- Make minor modifications to the independent student definition to eliminate confusion concerning the years in which resources must be demonstrated, simplify the definition without significant impact, and avoid large numbers of students automatically becoming independent in their third and fourth years of educational study;

- Explicitly permit aid administrators to use professional judgement to assist low-income independent students with families, whose income is less than the Congressional Methodology's standard maintenance allowance, by adjusting cost of attendance;

- Eliminate veteran's benefits from the Pell Grant Family Contribution Schedule and the Congressional Methodology and consider such benefits as resources in order to ensure consistency in the treatment of, and simplify the administration of, these benefits;

- Eliminate inconsistencies in the Higher Education Act and regulations that could result in double-counting academic-year student earnings as resources for the academic year they are earned and base year income in the following year by treating all non-need-based earnings as base year income for the next academic year; and

- Continue to recognize the needs of displaced homemakers and dislocated workers but address these needs through explicit notation of these categories of applicants in the professional judgement section of the Higher Education Act.

Independent Student Definition

The Committee noted that concern and confusion exist about the definition of first year in which aid is first received (initial year). The Department contends that the legislation fixes the initial year at 1987-88, if aid is received in that year. Establishing 1987-88 as the initial year requires students to demonstrate receiving $4,000 in resources in 1985 and 1986 and also requires an additional set of questions each year. Establishing 1987-88 as the initial year, if aid was received in that year, effectively precludes unmarried undergraduates under 24 years of age from becoming independent.

Although a member of Congress responded to this interpretation by indicating that the Department's position is inconsistent with congressional intent, the implications of the alternative interpretation are not wholely satisfactory. Congressman William D. Ford, in his March 3, 1988, letter to former Secretary Bennett, indicated that Congress intended the same two years be considered for student resources and claimed as a tax exemption. The Committee agrees that with this interpretation and argues alteration of the statute to make this clear. However, since student aid is contained in the current definition of resources, virtually all students attending high cost institutions could become independent in their third and fourth years exclusively as a result of student aid (if they were not claimed as an exemption by their parents). This automatic independency "for upper classmen" could have significant implications for the distribution of Federal and possibly state and institutional aid across types of students and institutions. The Committee urges expulsion of aid from resources considered for self-sufficiency.

Requiring that married and graduate students not be claimed as exemptions adds questions to the form without significantly reducing the number of otherwise dependent students who are considered independent. The College Scholarship Service reports that less than 1,000 students in approximately 2.6 million are married dependent students who would become independent based on this change alone. Approximately 9 percent of graduate students are dependent and would become independent. This represents less than 1 percent of all CSS applicants. The American College Testing Program reports that less than 1 percent of its applicants are married dependent students who would become independent. Further, approximately 8 percent of the graduate students are dependent students who would become independent, although this represents only 1 percent of all ACT applicants. It is important to note that these statistics do not represent the programs as a whole, but rather give indications of what the effect would be on a portion of the population. The Committee urges that all married and graduate students be considered independent.

The changes recommended by the Committee will:

- Eliminate confusion concerning the year under consideration for demonstrating $4,000 in resources;

- Reduce the number of questions on the application form by two and simplify the process for married and graduate students without enfranchising large numbers of previously dependent students.

- Permit students who are legitimately self-supporting to demonstrate independence by earning at least $4,000 per year;

- Simplify the process by permitting students who once are determined to be independent through the criteria in the Act, including professional judgement, to avoid repeated demonstration of independency thereby reducing burden on students and institutions; and

- Avoid reclassifying large numbers of otherwise dependent students at high cost institutions as independent, based solely on aid, while grandfathering students considered independent under the prior definition.

The Committee believes that the recommendation is consistent with the intent of Congress. In addition, the recommended statutory changes simplifies independency determination and minimizes what the Committee believes to be unintended redistributional effects of the current definition.

Independent Student Maintenance Allowance

The CM altered the means of accounting for the costs for maintaining the family of an independent student. The CM, in many ways, brought the treatment of independent students into conformity with the treatment of dependent students. For independent students with dependents, this means that the costs of maintaining and supporting a family, previously determined by institutions and contained in institutional student aid budgets (cost of attendance), are now used in the CM to determine family contribution. Including this SMA in the CM has eliminated the need, and ability, to have institutional budgets based on independent student family size. As long as income is greater than or equal to the SMA, the CM operates relatively efficiently, potential difficulties arising from regional differences in living costs notwithstanding.

However, for independent students whose income is less than the SMA, potentially serious problems arise. Since the SMA has been eliminated from the cost of attendance, these students are left with a hidden need gap. This occurs because all students whose income is less than the SMA will have a zero contribution from income regardless of the amount of their income. The difference between the SMA and the student's income was previously recognized in the cost of attendance as family maintenance costs, and therefore identified as part of the student's need. The current calculation does not permit recognition of this difference (i.e., the hidden need gap), except in individual circumstances.

Last year, however, the Department determined that institutions do not have discretion to include family maintenance costs for students because they are not explicitly included in the Act. Such a position is contrary to the relatively unfettered discretion historically permitted under the Higher Education Act and clear statutory language in section 479A of the Act. The language in this section states that "nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator...to make necessary adjustments to the cost of attendance...." Although the Department later reversed its position the Committee urges a change in the law to explicitly deal with this issue.

During this controversy, Senator Paul Simon and Congressman Ford wrote former Secretary Bennett concerning the Department's narrow view of dependent care (SMA). Both provided important guidance when they contended not only that it was not the intent of Congress to restrict institutions' discretion with regard to the construction and modification of student aid budgets (cost of attendance) but also that the Department is specifically prohibited from rulemaking with regard to need analysis and cost of attendance. The Committee concurs that Senator Simon and Congressman Ford's interpretations would restore the discretion traditionally permitted institutions in addressing individual needs and circumstances, and avoid penalizing low-income students with families, a subpopulation that clearly must be the full and equal beneficiaries of Federal student aid. The Committee believes that the act should be altered to specifically empower financial aid administrators to make necessary adjustments to cost of attendance in these cases under professional judgements sections of the act.

Treatment of Veteran's Benefits

The creation of the CM in the reauthorization altered an existing consistency between Pell Grant and the UM concerning the inclusion of veteran's benefits in both formulae, although they treated them differently. Currently, as in the past, the Pell Grant formula includes one-half of certain of these benefits. In contrast, CM excludes all such benefits for dependent students but includes these benefits for all independent students. For example, such benefits are included for independent students with dependents and subjected to a 22 to 47 percent marginal assessment. Benefits not included in the formula are required by regulation to be treated as resources in determining awards. Further, certain benefits appear to be omitted from the legislation, but are included in the Department's campus-based and GSL regulations.

The Committee recommends to Congress the ***consistent*** treatment of veteran's benefits by considering all veteran's benefits as resources in awarding aid and deleting these benefits from relevant sections of the Act dealing with the Pell Grant Family Contribution Schedule and the CM for all students. The Committee also recommends that the Secretary retain these data elements on all applications for Federal aid. The relevant sections of the Act include 411B(d)(1)(D), 411C(c)(1)(C), and 411D(c)(1)(C) for the Pell Grant Program and 476(b)(1)(D) and 477(a)(1)(C) for the CM.

Treating all veteran's benefits consistently will eliminate much confusion, streamline the related administrative processes, and most likely not result in significant cost increases in any of the programs. The most recent available Department Pell Grant data (1985-86) indicate that 1.4% of recipients report benefits. The mean award for recipients reporting benefits is $1,223 and the mean value reported is $3,695. The number reporting benefits likely has declined since that time. Thus, the potential Pell Grant Program costs would not be large. Data were not readily available with which to access the likely cost impact on the campus-based and GSL programs. However, the Committee anticipates that there would be no cost implication in the campus-based programs, although minor redistributional consequences are possible, and small cost increases for the GSL Program.

The Committee recommends retaining these data on the form, however, since the elimination of these data from the application could require institutions to collect the data independently and cause increased burden.

Term-Time (Award Year) Earnings

The use of base year income for the determination of family contribution for all students creates a conflict within the Act and between the Act and the Department's existing regulations concerning the treatment of term-time or within academic year earnings. Section 443(b)(4) of the Act requires that institutions discontinue student work-study funding if a student's earnings exceed his or her need by more than $200. Current regulations also require that these earnings be counted as resources in determining other awards within the award year under consideration. Thus, a student's need and potentially his or her awards would be reduced by the amount earned within that year. Under the CM, however, a portion or all of these same earnings would be considered part of base year income and would be used again as a resource in paying for education. The result would be double-counting or taxation of these earnings.

Altering the regulations that require institutions to monitor and consider these earnings in awarding aid would restore a long-standing principle for the Title IV programs, the avoidance of double-counting resources. The Department is moving to issue regulations on the matter at this time which will address the problem within a regulatory context. In addition, the Congress must change section 443(b)(4) of the Act by excluding need-based earnings to eliminate this problem.

Displaced Homemaker & Dislocated Worker

The Committee acknowledges the importance of identifying displaced homemakers and dislocated workers, and recognizes the plight of these groups which have particularly great need for access to postsecondary education. The Committee explicitly supports special attention and treatment for these groups, along with many others with special circumstances. The Committee is concerned, however, regarding the identification of these groups in the formulae and on the form. The Committee recommends removal of these categories and the associated questions from the form, but recommends explicit citation of these categories and the appropriate treatment (e.g. use of expected year income and exclusion of home assets) within the section of the Act dealing with professional judgement.

The questions needed to identify both groups adds about a dozen questions to the form and increases respondent burden. The Committee believes that elimination of these categories and associated questions from the form will achieve the intended goal-- special treatment for two needy and worthy groups-- while simplifying the form and keeping such treatment where it has traditionally been located, within professional judgement.

Other Issues

Since the Committee submitted its report, several other issues have been raised, each deserving careful attention. First, many individuals have suggested a change in the treatment of assets, in particular the family home, farm and business. I believe that the Committee would support elimination of these and other data from the simplification perspective. However, the Committee would urge caution with regard to the budgetary and redistributional effects of eliminating these assets from the calculation of need for certain families.

Second, the financial aid community has expressed concern about the contribution from student earnings. Although the Committee has not taken formal action on this issue, a careful consideration of the issue is in order, particularly in light of the first two years experience with the CM.

Third, the double-counting of income in assets is a critical issue to consider. The Committee took up this issue indirectly when considering the issue of avoiding double-counting award-year earnings. Addressing this problem through exclusion of a portion of assets is consistent with the Committee's position on award-year earnings.

CONCLUSION

The student aid programs require careful attention and periodic modification if they are to continue to serve needy students and families effectively. The Advisory Committee has supported the Congress and the Department in making necessary changes through a series of recommendations on default and need analysis.

The default initiative and changes to need analysis are needed to ensure equitable treatment and maintain support for and faith in the student aid programs. As a means of systematically dealing with such issues, the Advisory Committee has created a standing Subcommittee on Need Analysis and Delivery system to identify issues. The Committee intends to regularize its review of need analysis and other aspects of the programs and report to Congress periodically so that consideration of technical changes can become an annual process carried out in a timely and effective manner.

COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

June 13, 1989

Honorable Claiborne Pell
Chairman
Education, Arts and Humanities Subcommittee
Senate Labor and Human Resources Committee
648 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Pell:

At the invitation of your staff, I am submitting testimony on President Bush's proposal for a program of Presidential Merit Schools. It includes a description of Pennsylvania's School Performance Incentives Program, which is now operating and which is similar to the President's proposal.

I welcome the opportunity, both now and in the future, to work with you on this important proposal.

Sincerely,

Robert P Casey

Robert P. Casey
Governor

PREPARED STATEMENT OF ROBERT P. CASEY, GOVERNOR OF PENNSYLVANIA

Among the many important matters you will address this year is President Bush's proposal for "Presidential Merit Schools." This proposal holds out real promise to focus on school accountability; to reward improvement in teaching and learning; and to provide opportunities for collegial decision making by the staff of Merit Schools.

These are the central features of Pennsylvania's new School Performance Incentives program which this year, the first year, awarded $5 million in state funds to 202 public schools, an average of nearly $25,000 per school. These schools strongly improved their performance as measured by student achievement in reading and mathematics, by reductions in dropout rates, and by preparing more students for higher education. In February, at the request of the U.S. Department of Education, my administration forwarded the statute and selection criteria to federal officials for consideration as the Merit Schools proposal was being formed. Those documents are attached to this testimony.

We are gratified, therefore, to see many of the features of Pennsylvania's program reflected in the Merit Schools proposal. However, based on our initial assessment of the proposed Part G of Title IV of the Elementary and Secondary Education Act of 1965

(20 U.S.C. 2701 et seq.) we have several concerns about whether the program, both as proposed and as proposed for amendment, actually will encourage, produce, and reward real and sustained improvements in the schools.

One concern is whether to restrict participation in the Merit Schools program to Chapter 1 schools. A second is whether to use Chapter 1 improvement objectives as the criteria for earning a Merit School award.

On the first question, we support the proposal as introduced, holding the incentive for improvement open to all students. We appreciate the sense behind proposals to make Merit Schools funds available to the neediest schools. Particularly given the recent history of federal support for basic education -- adjusted for inflation, Pennsylvania's allocation of Chapter 1 funds in FY 1989 is only 81.6% of what it was in FY 1980, a loss of nearly $48.1 million in FY 1989 -- it is hard to argue with the need to provide greater support for schools with high concentrations of disadvantaged students.

Yet we believe it is important not to restrict the Merit Schools awards to Chapter 1 schools, both because the Congress should aid disadvantaged schools directly through increasing the budget for Chapter 1, and because such a restriction would disserve the real educational purpose of the proposal. All of the many education reports issued in recent years tell us that we must succeed at much higher levels with all students, and the only way to do that is to insist upon and reward improvements at all schools -- virtually all of which have some students who are both economically and educationally disadvantaged.

Our experience in Pennsylvania makes this clear. Among the 202 schools which earned School Performance Incentives this year, nearly one-third were not Chapter 1 schools. A few were in school districts which are among the wealthiest in the Commonwealth, because even in those districts the need for improvement exists. Since we cannot afford to leave any child behind -- including those whom wealthy schools are failing -- neither can we afford to deny any school the incentive to make strong improvements.

Also, the insistence on real improvements acts as a restriction on the school's eligibility in the first place. Schools which already provide the superb education which must become the common experience for all students rarely will benefit from programs based on improvement since those schools typically have insufficient room for improvement to qualify for an award.

Some of the schools which Pennsylvania rewarded this year may not be eligible in the future because it is statistically impossible for them to make improvements to match the current criteria. For example, schools where this year 90 to 100 percent of the students have mastered essential reading and mathematics skills cannot receive further incentive awards under criteria which require an improvement of at least 10 percentage points.

This experience also points to an answer to the second question -- whether to use Chapter 1 program improvement criteria as the basis for earning a Merit Schools award. The proposal before you says that states "shall consider" the Chapter 1 improvement objectives when applying the criteria for Merit School awards to Chapter 1 schools. For the reasons set forth below, we propose either that it be understood that states may "consider" those criteria without adopting them or that you revise the language to read "may consider."

Given that the standards for Chapter 1 improvement are minimum standards of educational progress, we believe that they are inadequate. Rather, a program of special recognition and incentives should be based on strong improvements such as we require in Pennsylvania.

Fully 70 percent of the Pennsylvania schools which earned School Performance Incentive awards this year were Chapter 1 schools. To us, this is compelling evidence that Chapter 1 schools can make the strong gains which we in Pennsylvania require. We need not, and should not, settle for less.

Our judgment is that a program of incentives for improvements should be applied uniformly across all schools alike -- Chapter 1 and non-Chapter 1, public and nonpublic. There is no such thing as a Chapter 1 adult. But it is for adulthood, successful adulthood, that we educate children. We now are at a point when we must insist upon accelerating the pace of educational improvement and not upon adopting standards which we know to be inadequate to the purpose.

There also are purely administrative reasons not to create, at least in Pennsylvania, a dual incentive system with one set of standards for Pennsylvania's School Performance Incentives and a second set of lower standards for Chapter 1 schools. In order to obtain a school-wide assessment, we would have to mandate a system for all students solely for the purpose of being eligible for the Merit Schools program. Even in the same building, achievement data collected for Chapter 1 students is not collected for non-Chapter 1 students. Similarly, if we chose to apply the Chapter 1 criteria universally among the schools, we would have to mandate assessment and reporting schemes for schools which have no Chapter 1 students at all.

Both of these alternatives seem unduly burdensome on school administrators, teachers, and students and on the resources we have available actually to improve education. Our goal is to put the maximum number of dollars to work on improvement, not to create reporting requirements which may be more expensive than any benefit which a school could stand to receive from participation in the Merit Schools program.

Recognizing the uniqueness of Pennsylvania's position, we therefore recommend that the states be given the option to use Chapter 1 improvement measures or not, as makes sense to each state, to determine the criteria for receiving a Merit Schools award.

Other aspects of the Merit Schools proposal which we ask you to examine closely concern the specific measures used as the basis of awards to schools; the use of funds awarded under the program; and some further administrative considerations.

Having struggled with the issue of measures of school performance in creating and implementing Pennsylvania's School Performance Incentives program, we caution you to examine closely the use of "process" measures (the ways or conditions in which students learn) as distinguished from "outcome" measures (the content of what they learn). Such measures of school performance as "the degree to which the school demonstrates progress in achieving and maintaining a safe environment, including reduction or elimination of problems related to drug and alcohol use" (Section 4708(b)(2)(B)) and "improvements in school leadership, the teaching and learning environment, and parental and community support and involvement" (Section 4708(c)(1)(B)) are examples of "process" measures.

In Pennsylvania, we are encouraging family and school relationships through a program called "Families and School: Support from the Home Team." In little more than a year, this program has distributed more than eight million pieces of literature describing what families can do at home to support the work of the schools and what schools can do to enlist families as partners in the education of their children. Recently, the program won its second national award for excellence.

We also are waging war on drugs. Our General Assembly now has before it my proposal to invest $140 million in PennFree, a plan to attack the drug problem on all fronts with a substantial investment in education as well as in treatment and law enforcement. Together with our nationally recognized Student Assistance Program, we intend to become in all respects a model for the nation in combatting drugs.

Finally, we have created a Principals Academy on Instructional Leadership, which some 500 principals have attended over the past two years. The four-day academy trains principals in ways to keep their focus of their work on instruction -- working with teachers to improve teaching skills, the climate for learning in the schools, and team building among other elements of effective school management.

We mention these efforts to illustrate that we know that successful learning is more likely to occur in schools which are free of drugs and which have effective leadership and strong community and family support. However, those conditions do not necessarily produce high student achievement -- if, for example, teachers are not armed with a command of teaching strategies which are known to be effective -- and therefore do not give us confidence that student achievement is improving. We agree that it is urgent to focus on these conditions of teaching and learning, and we are doing so in Pennsylvania in strong and sustained ways; but we disagree that these can be construed as measures of actual student achievement.

Additionally, states and schools likely do not have data bases which describe the "process" measures with sufficient certainty to be the basis for the expenditure of public funds. Certainly Pennsylvania does not, nor is it clear to us that the "process" measures are in fact measurable. To support the sound intent of the proposal, we accept the challenge to make them measurable, but we also ask that these "process" measures be made optional until we can establish with confidence that improvements in these areas are real.

Rather, we urge that the dollars available for improvement incentives be focused first on the "outcome" measures of improvement which the Merit Schools program proposes -- student mastery of reading, writing, and mathematics skills; reductions in dropouts and encouraging dropouts to return to school; college entrance rates; and graduate employment rates. These measures describe the improvements which are most important to us and, ultimately, to the students themselves.

We therefore recommend that the "process" measures described above be included as optional, not mandatory, measures which will serve as the basis for Merit Schools awards as the states develop consistent ways to document their occurrence in the schools and their direct relation to student achievement.

The use of funds awarded to Merit Schools is another issue which deserves close attention so that we may be sure that funds awarded to schools continue to advance the important purpose of improving education. With only one exception, Section 4710 does so. The sole exception is paragraph (3), "bonus payments for faculty and administrators."

Pennsylvania's program of School Performance Incentives takes the position that award monies are best used to reinvest in making further strong improvements in the schools, a position which we believe is sound because it furthers one central intent of the program, which is to recognize the need for continuing improvements. As stated above in the context of Chapter 1, the best schools will qualify for awards for only one or two years. The great majority of award-winning schools in future years will be those which still have a long way to go.

It therefore appears correct to us to require that award-winning schools use their awards to continue and to increase the pace of their progress in the manner suggested by the other paragraphs of Section 4710.

We further suggest an addition to this section, one which is based in the report of the Carnegie Forum on Education and Economy, A Nation Prepared: Teachers for the 21st Century, and which we are finding to be of great meaning in Pennsylvania. It is a requirement that the staff of an award-winning school -- teachers, principals, guidance counselors, librarians, clerical and support staff, and all the rest -- participate collegially in planning how to reinvest their awards to achieve further improvements in the school. The Carnegie Forum states the reason succinctly: "It is particularly important in a school setting to emphasize and reward the entire staff for student progress. First, because the contribution of individual teachers to student progress is extremely difficult to measure and, second, because it is important to provide strong incentives to the staff to work as a team on behalf of the students." (p. 91)

In this way, an incentive program provides and compels an opportunity for the staff to have a greater voice over the work of the school, which is a central recommendation not only of the Carnegie Forum but of every serious national report on the means now needed to improve school performance.

We therefore recommend 1) that the provision for "bonus payments for faculty and administrators" be deleted; and 2) that the proposal be amended to require that "the uses of incentive funds...shall be determined by the regular full-time and part-time school employees in the school through a selection process of their own choice. The plan of the school employees regarding the use of the funds shall be presented to the board of school directors and shall be implemented unless the board of school directors disapproves within sixty days of its receipt. If the plan is disapproved, the school employees may resubmit a new plan which the board of school directors shall consider as provided herein." 24 P.S. Section 2595 (e) and (f).

Three other issues concern administration of the program at the state level. Of less importance than the educational merits of the incentive proposal, but carrying significant weight nonetheless, is the requirement in Section 4705(b) that states submit a four-year application which contains "the criteria the State educational agency will use to select Presidential Merit Schools." At the least, this requirement should make explicit that states may amend their criteria, either to change the criteria for existing measures of school improvement or to add new measures of school improvement, during the four-year period.

Even having our School Performance Incentive program in place, Pennsylvania is continuing to develop new measures of school performance -- for vocational education, for higher-order learning in both elementary and secondary grades, and potentially other measures suggested by our schools. It will be a disservice to the schools not to have the freedom to pursue additional measures, or to refine existing ones, during the life of the Merit Schools program.

We therefore recommend that states be permitted to amend their four-year plans as often as annually to provide for new or revised criteria for earning a Merit Schools award.

Additionally, there will be some cost in time and dollars to create the data systems which will allow nonpublic schools to participate in the Merit Schools program. Pennsylvania, whose School Performance Incentive program applies only to the public schools, does not now have data on student achievement in nonpublic schools which will permit knowing whether the schools have improved from year to year. To create such a data base will require at least two years and perhaps three before nonpublic schools can participate on a basis which is comparable to the public schools.

While we welcome the participation of nonpublic schools in the Merit Schools program, we want you to be aware of the hidden costs and to encourage you to see that the final legislation provides for those costs.

Third, the requirement for a "state review panel to assist in the selection of Presidential Merit Schools," Section 4707, becomes largely unnecessary for that stated purpose if we limit eligibility for awards to outcome measures. That is, by adopting statistical performance measures such as student achievement on reading and mathematics tests, dropout rates, and going-to-college rates, the identification of strongly improving schools is a ministerial one. The need for informed and representative judgment arises instead around the tasks of selecting the outcome measures to be used and the degree of improvement required for a school to receive an award.

We therefore recommend that Section 4707 (a)(1) be amended to read: "Each State educational agency shall establish a State review panel to assist in determining the measures to be used and the degree of improvement required for schools to receive Presidential Merit Schools awards."

Thank you for the opportunity to present Pennsylvania's experience with our School Performance Incentives program as you begin to examine the Merit Schools proposal. We believe the President's proposal promises to be a driving force to improve teaching and learning, and we submit these recommendations in that spirit.

SUMMARY OF RECOMMENDATIONS

1. Keep the Presidential Merit Schools program open to all schools. Do not restrict it to Chapter 1 schools. (Testimony page 2.)

2. Do not require the use of Chapter 1 program improvement criteria as the basis for determining Merit Schools awards. Make these criteria optional for the states. (Testimony page 4.)

3. Do not mandate the use of "process" measures -- Section 4708(b)(2)(B) and Section 4708(c)(1)(B). Make those measures optional for the states. (Testimony page 6.)

4. Delete Section 4710(3) -- "bonus payments for faculty and administrators." (Testimony page 10.)

5. Add a requirement that award funds be used to achieve further improvements in the schools and that the use of award funds be determined by the staff of the school which has earned the award, subject to approval by the school district's board of directors. (Testimony page 11.)

6. Permit states to amend their four-year plans as often as annually. (Testimony page 12.)

7. Consider providing funds for states to develop data systems to measure the performance of nonpublic schools. (Testimony page 13.)

8. Amend Section 4707(a)(1) to give the state review panel the charge to assist in determining the measures to be used and the degree of improvement required for schools to receive an award. Delete the charge to assist in the selection of schools. (Testimony page 14.)

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amount so calculated shall be paid to each qualifying school district, intermediate unit and area vocational-technical school by the Department of Education during each school year for which each school district, intermediate unit and area vocational-technical school qualifies out of the funds appropriated to the department for this purpose.

(c) For each school year for which a school district, intermediate unit and area vocational-technical school qualifies for a special payment under subsection (a), the entire employer's share of contributions to the Public School Employe's Retirement Fund and Social Security attributable to the salary increase implemented pursuant to section 1142.1 shall be paid for each school district, intermediate unit and area vocational-technical school out of funds appropriated to the Department of Education for such purposes.

Section 2535. School Performance Incentives.--(a) The purpose of this section is to establish a program of school performance incentives to reward significant educational improvements, to evoke further school performance improvement and to foster collegial participation by school employes in improving school performance.

(b) Any public elementary school, secondary school or area vocational-technical school is eligible to participate in the school performance program.

(c) (1) School performance will be determined by improvements in student accomplishment using the following criteria:

(i) student achievement as measured by performance on tests developed or approved by the State board through regulation and pursuant to this act;

(ii) dropout rates as measured by the increase in the proportion of students continuing their education in grades seven through twelve; or

(iii) students prepared to go on to higher education as measured by an increase in the proportion of high school students taking the Scholastic Aptitude Tests and an increase in the average scores on Scholastic Aptitude Tests.

(2) Improvements in school performance shall be calculated on performance levels during the year prior to the year in which incentive payments are made compared to performance levels during either the immediately preceding year or the average of the two immediately preceding years.

(3) All data submissions from the schools shall be subject to audit and any incentive payment amounts subsequently determined to be excessive due to inappropriate data shall be deducted from subsequent Equalized Subsidy for Basic Education payments.

(4) The Secretary of Education shall monitor and evaluate the criteria for selection of schools and shall annually determine and publish the required level of performance improvement for schools to be awarded incentive payments. Beginning with payments to be made during the 1990-1991 fiscal year, any revisions shall be proposed on or before September 1 of the fiscal year prior to the fiscal year in which the incentive payments are to be distributed.

(d) The Secretary of Education shall award on account of each school that meets the required level of performance improvement an amount determined by dividing the total full-time equivalent professional employes of the qualifying schools into the amount annually appropriated for the school performance incentives. The incentive awards will be distributed to the school districts based on the number of full-time equivalent professional employes at the qualifying school. Each school performance incentive payment shall be made in a single payment, and the Secretary of Education shall draw his requisition upon the State Treasurer in favor of each school district with qualifying schools.

(e) (1) Incentive funds shall be paid to the school district for use only by schools which qualify pursuant to subsection (c). Payments received by school districts with qualifying schools may be applied to one or more of the following uses:

(i) teaching materials, including books, audio-visual aids and computer software;

(ii) initiatives which reach to families to evoke home support of the work of the school and otherwise involve families in the school;

(iii) assistance in the introduction or advancement of curricular and instructional improvements;

(iv) other uses reasonably expected to improve school performance or to enhance teaching and learning or the educational climate of the school.

(2) Uses of incentive funds, as provided for in paragraph (1) of this subsection, in each school shall be determined by the regular full-time and part-time school employes in the school through a selection process of their choice. The plan of the school employes regarding uses of the incentive funds shall be presented to the board of school directors and shall be implemented unless the board of school directors disapproves within sixty days of its receipt. If the plan is disapproved,

the school employes may resubmit a new plan which the board of school directors shall consider as provided herein.

(f) Incentive funds provided pursuant to this section shall be used to supplement and not to supplant any other sources of funds for the operation of the qualifying schools and the instructional program of such schools.

(g) (1) Each school district receiving a school performance incentive payment shall report to the Secretary of Education no later than October 31 of the fiscal year following the year in which such funds were expended on the use of the funds, the results of the use of such funds and the maintenance of the fiscal effort on behalf of qualifying school buildings of such school districts. Reports by school districts, as provided for in this subsection, shall be submitted in a form determined by the Secretary of Education.

(2) The Secretary of Education shall annually file with the Education Committee of the House of Representatives and the Education Committee of the Senate a report on the operation of the school performance incentives program provided for herein, including any recommendations for changes in the selection criteria.

(3) By September 15, 1992, the Secretary of Education shall report to the Chairman and Minority Chairman of the Education Committee of the House of Representatives and to the Chairman and Minority Chairman of the Education Committee of the Senate on: The identification of exemplary educational programs initiated in various schools which resulted in superior performance improvement; recommendations of methods of encouraging replication of these programs; and evaluation and recommendations on whether these programs should be continued or

altered.

(h) Nothing in this section shall be construed to deprive any employe, any employe organization or any public employer of any rights, including rights of representation, enjoyed under the act of July 23, 1970 (P.L.563, No.195), known as the "Public Employe Relations Act," or under other provisions of this act.

Section 2596. Special Study on the Revenue Impact of Out-of-State Tax Credits.--(a) The Department of Education shall undertake a special study to assess the revenue impact on Pennsylvania school districts of residents who work in bordering states; Particular emphasis shall be placed on districts meeting the following criteria:

(1) Districts that levy a local earned income tax under the act of December 31, 1965 (P.L.1257, No.511), known as "The Local Tax Enabling Act;" and

(2) Districts that include as resident taxpayers individuals who are subject to State and/or local income taxes at their out-of-State place of employment and who, therefore, claim tax credits in Pennsylvania as a result of these levies.

(b) The assessment shall include:

(1) Identification of all districts which meet the above criteria.

(2) Compilation of data indicating, on a per district basis, the number of resident tax payers claiming a tax credit for out-of-State payments.

(3) Analysis of the individual taxpayer data in order to assess the effect on the local and State revenues for each affected school district.

(c) The Secretary of Education shall present a report summarizing the results of this study to the Chairman and the

CRITERIA FOR PENNSYLVANIA'S SCHOOL PERFORMANCE INCENTIVES PROGRAM
SCHOOL YEAR 1988-89

Improved Student Achievement in Reading and Mathematics

To qualify for a School Performance Incentive award, schools had to raise the percentage of students achieving a command of essential reading and mathematics skills by at least 10 percentage points in each subject and grade tested in the building, comparing 1986-87 to 1987-88. Student achievement was measured by the Commonwealth's Test of Essential Learning Skills, a criterion-referenced assessment of reading and mathematics given to all 3rd, 5th, and 8th grade students in the public schools.

Pennsylvania's statewide improvement in 1987-38 was 2.4 percentage points.

Improved Dropout Rates

To qualify for a School Performance Incentive award, schools had to reduce their annual dropout rate by at least 1.8 percentage points from 1986-87 to 1987-88. Schools with fewer than 15 dropouts in 1986-87 were not eligible. The annual dropout rate is computed by dividing the number of dropouts during the school year by the school's enrollment in grades 7-12.

Pennsylvania's statewide dropout rate for 1986-87 was 2.8 percent.

Improved Student Preparation for Higher Education

To qualify for a School Performance Incentive award, schools had to achieve either an increase of eight percentage points in the percent of seniors taking the Scholastic Aptitude Test (SAT) plus some gain in both verbal and mathematics scores or an increase of at least 35 points in the sum of the average verbal and mathematics mean scores plus some increase in the participation rate. The results for the class of 1988 were compared with the combined results for the classes of 1986 and 1987.

Statewide in Pennsylvania, the class of 1988 had eight percent more seniors taking the SATs than the classes of 1986 and 1987. The total verbal and mathematics mean scores for the class of 1988 were 6.5 points lower than for the classes of 1986 and 1987.

The College Board
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Washington Office

June 12, 1989

Honorable Claiborne Pell
Chairman
Subcommittee on Education
U.S. Senate
SR-335 Russell Senate Office
  Building
Washington, DC 20510-3901

Dear Senator Pell:

Enclosed are two papers that may be useful to your subcommittee in considering amendments to the Congressional Methodology under Title IV of the Higher Education Act. I hope they might be included in the record of the subcommittee hearing scheduled for June 13.

Both papers grow out of extensive analysis by the Committee on Standards of Ability to Pay of the College Scholarship Service (CSS). The first, "Agenda for Change," recommends adjustments to the Congressional Methodology needed to address problems that have come to light since the methodology was implemented starting last year. The second paper, "Approaches to Simplification," suggests more radical alternatives for simplifying the need analysis system, especially for low income students.

Also enclosed are graphic charts, based on the CSS filing population, that depict the shifts in dependency status and in student eligibility as a result of the transition to the Congressional Methodology.

Please let me know if the College Board can provide additional information or analysis.

Sincerely,

Lawrence E. Gladieux /afc

Lawrence E. Gladieux
Executive Director

LEG/veg
Enclosures

CSS

The Congressional Methodology: Agenda for Change

A Discussion Paper from the College Scholarship Service (CSS) Council
Committee on Standards of Ability to Pay (CSAP)
Prepared for the 1989 Regional Meetings of the College Board

Preface

Since the 1988 College Board regional meetings at which member opinion was gathered regarding needed improvements to the Congressional Methodology (CM), the College Scholarship Service (CSS) Council's Committee on Standards of Ability to Pay (CSAP) has spent a good part of its time refining its agenda for change. Staff has communicated CSAP positions on the Congressional Methodology and its problems to both the Advisory Committee on Student Financial Assistance and to Congressional staff during the past year. Furthermore, CSAP members have continued to analyze the impact of the new methodology on CSS filers and to study proposals made by the Advisory Committee and statutory language considered by the Congress as part of default-reduction initiatives. During the need analysis session at each regional meeting, Committee members will seek further comments from the CSS Assembly (CSSA) membership about CM problems and potential solutions.

Independent Student Definition

The problem

In reauthorizing the Higher Education Amendments in 1986, the Congress changed the definition of independence, incorporating both "automatic" criteria (age, veteran status, family status, etc.) and "conditional" criteria (tax exemption, self-sufficiency) requiring documentation by the aid administrator. These conditional criteria which are defined differently for unmarried undergraduates than for married undergraduates or graduate students, have increased in complexity each year for students applying for aid. For example, the 1989-90 FAF asks unmarried undergraduates to complete as many as nine separate questions about their dependency status. Both the response sets and the branching instructions on the form are lengthy and complex. Furthermore, the definition of resources is complicated and invites error-prone responses. Finally, it is almost impossible to describe in simple terms to a student or to parents the qualifications for independent status.

College Scholarship Service
The College Board
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Unless the law is changed before the design of the 1990-91 FAF is complete, the aid community can anticipate an additional branching instruction in the question about when the student first received federal aid, as well as an additional question regarding the student's resources in 1988 and 1989. One can look a few years into the future and envision an entire page of the form dedicated to questions concerning the student's status.

Is the current definition accomplishing Congressional intent?

In changing the definition, Congress tried to eliminate criteria which were difficult to document (e.g., whether the student lived with or received support from parents) and to preserve the integrity of the definition by incorporating a test of self-support. Furthermore, Congress recognized certain exceptional situations which would justify application of professional judgment in the determination of a student's status.

It now appears, however, that one effect of removing the "difficult to document" criteria may have been the creation of a new loophole in the definition. As families begin to understand the current criteria, it is possible to imagine that parents of high school students from middle and upper income families may decide not to claim their child during the two years prior to postsecondary enrollment so that the child can apply for aid as an independent student. Although CSS has no hard evidence that such decisions are common, anecdotal evidence from the aid community suggests that this loophole may detract from the attempt to tighten the definition through the test of self-support.

What do we know about the impact of the new definition on CSS filers?

CSS National Summary Data (NSD) reports from the past three years reveal that more students are independent under the new definition than under the old definition. They also tell us that since 1986-87, the number of dependent graduate students has decreased significantly. Table A shows comparative data:

TABLE A - Dependency Status of CSS Filers

	% of total filers			% of graduate/ professional filers		
	86-87	87-88	88-89	86-87	87-88	88-89
Dependent	66.9%	63.1%	62.4%	29.7%	9.2%	8.3%
Independent	33.1%	36.9%	37.6%	70.3%	90.8%	91.7%

It is also interesting to examine the various dependency criteria to learn which have the most significant impact on determination of independence for the CSS filing population. Table B, based on the fall 1988 NSD report, shows that most students establish their independence based on the automatic criteria. (Note, however, that a student may be counted in more than one line on the table since the table is constructed based on answers to questions 45-50 on the 1988-89 FAF.)

TABLE B - Independent Student Criteria

	% of Filers Meeting Criteria for Independence
Over age 24	28.0%
Veteran	3.0%
Orphan/ward of court	1.2%
Legal dependents	12.6%
Undergrad conditional criteria (Q. 46-49)	3.7%
Graduate/married conditional criteria (Q. 50)	2.9%

It is also interesting to note that very few aid administrators have been using the CSS dependency override capability. Through November, 1988, only 5,400 students (.2 percent of the total filers) were processed as independent based on the aid administrator's professional judgment. Furthermore, only 115 students (.004 percent of the total filers) were processed as dependent because they were claimed as a tax exemption during the previous year.

Possible solutions

Included in last fall's default-reduction legislative initiatives were several proposed changes to the independent student definition:

- A provision that married students and graduate/professional students (House bill only) be considered automatically independent;
- A provision that single undergraduates under age 24 who were determined independent retain that status unless subsequently claimed as a tax exemption by a parent;
- A provision that would require a first-time independent student to demonstrate self-support during the two calendar years prior to the first calendar year of the award year and remove student financial aid from the definition of resources; and

- A provision that would permit students with annual total resources of less than $4000 to demonstrate self-support.

These proposed changes attempted to deal with the complex issues cited earlier in this paper. Although these legislative initiatives did not pass in the last session, the 101st Congress may reconsider many of these same issues when it convenes. Therefore, it is important that the CSSA membership advise CSAP on the best solution to problems created by the independent student definition.

Questions for consideration by the CSSA membership:

a. Should graduate/professional students be automatically independent?

b. Should married students be automatically independent?

c. How should the form ask a question regarding the student's prior independent status? (To date, federally approved forms have never used the terms dependent or independent to describe student status.)

d. Would the test be improved by restoring the criterion relating to whether the student lived with parents during the two calendar years prior to the first calendar year of the award year? If not, is there reason to be concerned about the new "loophole"?

e. Since so few students establish their independence based on the "conditional" criteria, could the definition be simplified by eliminating the conditional criteria, allowing aid administrators to make exceptions based on professional judgment when a legitimately independent student does not meet any of the automatic criteria? Can such a treatment be administered with equity, given the diverse aid sources involved?

Dislocated Worker and Displaced Homemaker Variants

The problem

The Congress made provisions in the statute for variations on the regular CM analysis to account for the special problems of dislocated workers and displaced homemakers. The provisions, however, have added complexity to the form, the instructions, and the process.

What do we know about the impact of these variants on CSS filers?

A very small percentage of CSS filers indicate that they are either dislocated workers or displaced homemakers. Some of them also qualify for the Simple Needs Test and receive special treatment under that variant. Fewer than half of the displaced homemakers, however, indicate home ownership and, as a result, receive no benefit from the analysis variant. Finally, anecdotal evidence from users, indicate that many of those who indicate dislocated worker status, do not actually meet the criteria.

Table C provides summary data on CSS filers who were processed as dislocated workers or displaced homemakers.

TABLE C - Percent of Dislocated Workers, Displaced Homemakers

	Independent			Dependent		
	% Parents Primary Analysis	% Parents Secondary Analysis	% Owning Home	% Students Primary Analysis	% Students Secondary Analysis	% Owning Home
Dislocated Workers	2.5%	.4%	67.1%	1.9%	1.5%	24.4%
Displaced Homemakers	1.6%	1.2%	45.4%	1.4%	3.4%	15.3%

Possible solutions

During last fall's default reduction initiatives, there was a proposal to eliminate both the dislocated worker and displaced homemaker variants from the CM and Pell methodologies. Instead, these circumstances were characterized as examples of situations that could be handled through professional judgment, for example, by excluding the net value of other real estate and investments, as well as home equity, from consideration.

CSAP supports the idea of using professional judgment to adjust the family contribution in cases where dislocated-worker or displaced-homemaker status reduces the family's capacity to contribute. In addition, CSAP favors removing the dislocated-worker and displaced-homemaker questions from the need analysis form.

Questions for consideration by the CSSA membership:

a. Should the dislocated worker and displaced homemaker variants be eliminated in favor of adjustments to the analysis based on professional judgment?

b. Acknowledging the legitimate concerns for the economic problems of such individuals, how best can aid administrators identify such exceptional situations, particularly if the questions are eliminated from the form?

Base-Year Income

The problem

The CM uses base-year earnings to compute the student contribution for both dependent students and independent students. Base-year earnings have the advantage of being verifiable. However, for students making the transition from high school to postsecondary education or from a full-time job to graduate school, base-year earnings may not be an accurate predictor of academic-year earnings.

Currently, aid administrators handle this problem by deciding, on a case-by-case basis, to disregard the base-year earnings and to use either a minimum contribution or reported estimated-year earnings. This approach has become a difficult administrative problem, however, since adjustments may be required in more cases than not for both entering first- and second-year students. Furthermore, many undergraduate and graduate students are receiving initial information about eligibility and aid which is misleading, because high base-year earnings were used to compute their contribution.

It has been suggested that the use of base year income results in the double-counting of income, since it may be reported both as income in the base-year and as savings or investments on the asset side of the computation.

What do we know about the impact of the use of base-year income?

Using fall NSD figures, one can compare the 1987-88 and 1988-89 average contributions for dependent filers based on their year in school. For each group, the average CM contribution from income computed in 1988-89 is significantly higher than the average Uniform Methodology (UM) contribution from income computed in 1987-88. Table D displays this information.

TABLE D - Average CM and UM Contributions for Dependent Students

Year in School	1987-88 Average UM Contribution from Income Analysis	1988-89 Average CM Contribution from Income Analysis	% Difference
First	780	1474	+89%
Second	938	1778	+90%
Third	966	1964	+103%
Fourth/fifth	981	2089	+113%
Grad/professional	1043	1997	+91%

1988-89 National Summary Data tables provide additional insight, in the case of both dependent and independent filers, into how much higher reported base-year income is than estimated summer and academic-year income for CSS filers, as displayed in Table E:

TABLE E - Average Base Year and Estimated Year Income

	Dependent		Independent	
	Freshmen	All Others	Undergrads	Grads
Average Base Year Income	$2122	$2988	$10,607	$13,496
Average Estimated Summer + Academic Year Income	$1290	$1866	$9,308	$10,336
% Difference	-39%	-38%	-12%	-23%

NSD reports also reveal that almost 47 percent of dependent CSS filers, and about 51 percent of independent filers report estimated summer and academic-year income that is at least 10 percent less than base-year income. In only about 3 percent of the dependent cases and about 11 percent of the independent cases does estimated-year income exceed base-year income by $2000 or more.

Possible solutions

The Senate 1988 default reduction contained proposed changes to the CM that addressed the base-year income problem for dependent students, which appears to be more serious for dependent students than for independent students (as Table E demonstrates). The bill would have changed the income assessment rate for dependent students' earnings from 70 percent to "not less than 50 percent." This wording would have provided the aid administrator flexibility to determine the most appropriate assessment rate for dependent students on each campus.

In addition, both the Senate and House bills included a provision to exclude student assets that did not exceed the student's available income.

Questions for consideration by the CSSA membership:

a. Does professional judgment on a case-by-case basis provide a satisfactory means of adjusting the student contribution when base-year income is not indicative of academic-year income? What policies have institutions adopted to handle the base-year income problem?

b. Should the assessment rate be reduced for dependent applicants, as was proposed in the Senate bill? Should the same change be made for independent students without dependents?

c. Is the double-counting of base-year earnings a problem? Is the revised asset treatment an appropriate solution?

d. CSAP has previously suggested ignoring base-year income for entering undergraduate and graduate students and to expect a minimum contribution (typically $700 for entering freshmen and $1200 for entering graduate students). Is there support for this position?

e. Have any institutions or state agencies done research on the accuracy of students' reported estimated-year income?

Parent's Enrollment in College

The problem

The Higher Education Amendments of 1986 reinstituted a provision to include parents enrolled in postsecondary education in the number-in-college adjustment. Allowing the parent's enrollment in college to reduce the parent contribution was identified by CSS and other need analysis services as a problem in the UM several years ago. A recommendatiop was made to the National Student Aid Coalition in 1982 to eliminate the parent from the number in college adjustment, and the Coalition approved the change for the 1984-85 processing cycle. The reasons cited for the change at the time were: 1) that more and more parents were enrolling in colleges which charged little or no tuition and fees; 2) that they were enrolled in personal development courses rather than degree or certificate programs; and 3) that reducing the parent contribution in such cases distorted the measurement of parents' ability to pay. Furthermore, it was pointed out that the related SMA adjustment for additional enrollees assumes that a child will move out of the home to attend school; the enrolled parent will not do so. In addition, the current CM adjustment disproportionately benefits families at the high end of the scale, while lower income families receive virtually no benefit from the treatment.

Possible solutions

Both the House and the Senate default-reduction initiatives last fall attempted to deal with this issue by stipulating that to be counted in the number-in-college, a parent would have to be enrolled in a degree, credential, or certificate program.

Such an approach addresses one of CSAP's concerns about the CM treatment of parents' enrollment in college, since it would eliminate those parents enrolled in personal development classes from the number-in-college adjustment. However, CSAP would further propose that the treatment be changed to remove parents from the number in college adjustment, but to allow their unreimbursed direct educational expenses as an allowance against income. CSAP believes this approach would minimize the vertical-equity problems created by the current CM treatment, and would provide benefits for all affected parents, no matter how low their income. This treatment would be similar to the CM approach to unreimbursed elementary- and secondary-school tuition.

Questions for consideration by the CSSA membership:

a. Should the CM be changed to eliminate consideration of the parent's enrollment in college, as was the case in the 1984-85 UM?

b. Would a more equitable alternative be to allow parents' unreimbursed direct educational expenses, incurred through enrollment in a degree, credential, or certificate program, as an allowance against income?

Treatment of Independent Students with Dependents

The problem

It has been suggested by some observers that the most fundamental problem in the CM involves the treatment of independent students with dependents, including married couples with no children, who are analyzed in the same way as parents of dependent students. CSAP has several concerns about the methodology as it applies to these students.

First, the Committee believes that married couples without children do not have the same financial pressures as students with children, and that they should not be treated the same way in the need-analysis system.

Second, the CM does not work well for married couples when both spouses are enrolled in postsecondary education. Assuming that both spouses apply for financial aid, the same total income and assets are reported on both applications; the income is doubly protected by the Standard Maintenance Allowance (SMA) in each student's analysis; the assets are doubly protected by the Asset Protection Allowance in each student's analysis; an expense budget is assigned for each spouse which takes into account certain expenses which were already accounted for in the SMA. The problem is further exacerbated when there are children, since children are included in the SMA twice--once in each spouse's analysis. The result is a contribution from each spouse which is unreasonably low and inequitable when compared with similar families with only one enrolled spouse.

Third, CSAP believes that the CM treatment fails the test of vertical equity, since contribution levels do not increase proportionately as income increases. This creates problems for the aid administrator who must identify the neediest students for targeting limited student aid funds.

What is the impact of the CM treatment on independent students with dependents?

In general, contributions from independent students with dependents are much lower under the CM than they were under the UM, despite the use of base year income. Conversely, average contributions for independent students without dependents are about 45 percent higher under CM than they were in 1987-88 under UM. Table F demonstrates these findings.

TABLE F - Average CM and UM Contributions for Independent Filers

	% of 88-89 Independent Filers	88-89 Average CM Contribution	87-88 Average UM Contribution
Single with no child	55.1%	$3,947	$2,725
Single with child	18.2%	375	4,290
Married with no child	9.9%	1,742	8,670
Married with child	16.8%	1,454	9,072

Furthermore, because of the generous income assessment rates, it is very difficult to identify the neediest independent students with dependents. Table G below demonstrates that more than 50 percent of the students in a sample of about 5,500 independent students with dependents have contributions less than $200. Over 75 percent of these students have contributions less than the $1200 minimum expected of independent students without dependents.

TABLE G - Average Student Contribution by Income Level for Independent Students with Dependents

Base Year Income	% of Filers	Average Student Contribution
0 - 1499	5.0	$ 158
1500 - 2999	5.0	169
3000 - 4499	6.8	159
4500 - 5999	8.4	161
6000 - 7499	8.5	149
7500 - 8999	6.5	147
9000 - 10499	6.2	145
10500 - 11999	4.7	154
12000 - 13499	3.7	223
13500 - 14999	4.3	250
15000 - 16499	4.4	352
16500 - 17999	4.2	432
18000 - 19499	3.0	663
19500 - 20999	3.1	788
21000 - 22499	2.8	810
22500 - 23999	2.4	1269
24000 - 25499	2.4	1459
25500+	18.5	3999
TOTAL	100.0	$ 1005

Possible solutions

CSAP believes that married students with no children should be treated like independent students without dependents, since married students without children have fewer competing demands on their income and should be able to commit a higher percentage of resources to postsecondary education expenses. This change would make the CM determination of formula type consistent with the Pell formula determination. The CM should require a minimum spouse contribution to account for cases where the spouse is unemployed or underemployed.

CSAP also believes that changes need to be made in the treatment of married couples when both spouses are enrolled in postsecondary education. The Committee is not yet ready to put forth a recommendation, but work continues in this area. Members are anxious to learn from CSSA members about their institutional policies for dealing with this problem.

Questions for consideration by the CSSA membership:

a. Should married students without children be treated like single independent students?

b. What adjustments are schools making to account for cases in which both spouses are enrolled in postsecondary education?

c. For schools with a large number of independent students with dependents, how are aid administrators identifying the neediest for priority funding?

d. Is it equitable to treat independent students with children the same as parents of dependent students? If not, what changes should be pursued?

Non-liquid Assets

The problem

Included in the Senate's proposed default-reduction initiative last fall was a provision to exclude the family's principal place of residence, the family farm and the family-managed small business from asset calculations for families with adjusted gross incomes of $30,000 or less. The House bill contained the same exclusions for all families, regardless of income.

What would be the impact on CSS filers of such exemptions?

Fall 1988 National Summary Data (NSD) tables tell us that the average parent contribution from analysis of assets (excluding families qualifying for the Simple Needs Test) was $926 and that the total contribution from assets for all parents was over $1.37 billion. Obviously both the average and the total include contributions from liquid assets (cash and savings), which represent about 8 percent of total parental worth. Furthermore, there is no way of knowing what proportion of reported businesses and farms would meet the "family-owned" criteria as defined by the Small Business Administration and the Secretary of Agriculture. Nevertheless, elimination of non-liquid assets would have a very significant impact on aggregate national need.

If examination of assets is limited to those with incomes below $30,000, the aggregate contribution from the asset analysis totals almost $190 million and averages about $235 per family. Almost 50 percent of CSS dependent filers have total parent incomes below $30,000. (The Senate proposal uses adjusted gross income as the income criterion rather than total income; therefore, the percentage with AGI below $30,000 would undoubtedly be higher.)

The Fall NSD 1988 also indicate that 72.4 percent of the dependent families for whom the primary analysis is regular, report home ownership, and that the average home equity is about $37,000. About 12.5 percent of CSS's dependent families own businesses or farms, but it cannot be determined if they are family-run and operated. Among independent filers, the average contribution from assets, excluding students who qualified for the Simple Needs Test, was $303; the aggregate contribution from assets was about $127 million. However, for independent filers, the asset contribution is largely attributable to liquid assets. About 13 percent of independent filers, for whom the primary analysis is regular, report home ownership; fewer than 3 percent report ownership of businesses or farms.

Possible solutions

CSAP does not support the Congressional proposal to eliminate home equity and other non-liquid assets from CM calculations. In correspondence to the staff of the Senate Subcommittee on Education, Arts and the Humanities, CSAP cited these concerns:

- Exclusion of home equity and other non-liquid assets is contrary to the fundamental principle of equity upon which the need analysis system rests;
- The change would redistribute limited aid dollars from low income families, many of whom rent, to higher income families, who are more likely to own their homes; and
- The proposal would be very costly, since it would result in higher need and eligibility among middle-and upper-income families without reducing need for another group.

The Committee urged that any such changes in asset computation, if any are to be made, be restricted to eligibility determination for the Stafford Student Loan program and that asset exclusion be limited to home equity (for the principle residence).

In addition to equity issues, CSAP is concerned about the potential for added complexity in the form and instructions if family-owned and operated business and farm values must be defined and collected separately. The Small Business Administration defines family-run businesses differently based on the type of business and revenue base (e.g., retail, manufacturing, service). The Secretary of Agriculture defines family-owned and operated farms differently based on location, products produced, revenue base, etc. This problem is similar to the one experienced with regard to the definitions of displaced homemaker and dislocated worker.

Questions for consideration by the CSSA membership:

a. Should home equity be excluded from the CM calculation? If so, for which groups of families? Should the home equity exclusion be limited to eligibility for the Stafford Loan Program?

b. Is it necessary to make changes to the methodology to deal with non-liquid assets or can aid administrators use professional judgment to adjust the contribution from assets when it is unrealistic based on the specific family situation?

January 11, 1989

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CSS

The Congressional Methodology: Approaches to Simplification

A Discussion Paper from the College Scholarship Service (CSS) Council
Committee on Standards of Ability to Pay (CSAP)
Prepared for the 1989 Regional Meetings of the College Board

Preface

Responding to College Board President Donald M. Stewart's suggestion for "a broad-based study of simplification, beginning with statutory and regulating requirements affecting eligibility, proceeding from there to need analysis," the Committee on Standards of Ability to Pay (CSAP) has also begun to focus its attention on more radical approaches to simplifying the need analysis system.

The Simple Needs Test

The Committee began by studying the impact of the Simple Needs Test, a variant on the standard CM, to identify the characteristics of families that qualify and determine whether the variant was providing results in accord with Congressional intent.

As of November 1988, about nine percent of CSS dependent filers met the qualifications for the Simple Needs Test. The average parent contribution for these families was only $76; the average student contribution was $1386. The income levels reported by these families confirm that the Congress was successful in targeting this special treatment at truly low-income dependent filers. For example:

- Only 52 percent of these families reported taxable income, which averaged $7453.
- More than 61 percent of these families reported untaxed income averaging $6387.
- The average total income for these families was only $8548.
- The average total income for the student filer was about $2650.
- Although the CM formula does not account for medical or dental expenses, 27 percent of these families reported medical/dental expenses averaging $948 (11 percent of average total income). If these expenses had been subtracted from income, the average parent contribution would have been even lower than $76.

Although assets are excluded from the Simple Needs Test formula, it is interesting to note that asset accumulation was in any case, modest, and average equity levels were much below those of all other dependent students. For example, although about 30 percent reported home ownership, the average home equity was less than $30,000 as compared with $48,000 for families for whom the primary analysis was the regular analysis. Furthermore, although 37 percent of the filers' parents reported cash and savings, the average total was only $2,700, as compared with about $5,300 for filers processed using the regular analysis.

In studying the impact of the Simple Needs Test on independent filers, CSAP questioned whether the Simple Needs Test benefit should apply to all types of independent students, including those without dependents. In contrast to the proportion of dependent students qualifying for the simple needs test, almost 58 percent of all independent CSS filers met the Simple Needs Test criteria. (Only 35 percent of independent CSS filers have children.) The average contribution for these students was $1788. 77 percent reported taxable income (in contrast to only 52 percent of the parents of dependent filers); more than 61 percent reported cash and savings (in contrast to the relatively modest percentage of dependent students whose parents reported savings). In this regard, the question to be answered is whether it is appropriate to ignore assets of the independent student who has no family responsibilities and for whom education should be the highest priority.

Although it is clear that the Simple Needs Test identifies the lowest income students, at least among dependent filers, there is concern that the reduced data set required for these students still involves about 50 questions and many pages of complex instructions. Furthermore, the eligibility criteria to qualify for the Simple Needs Test remain complex. As a result, it is difficult to inform families with certainty that they do indeed qualify for the CM variant and can fill out a form with fewer questions. In sum, it is questionable that the "Simple" Needs Test is truly "simple."

CSAP short-term recommendations

To bring short-term improvement to the CM approach, CSAP recommends that two changes to the currently defined Simple Needs Test criteria be implemented for the 1990-91 application cycle:

- For dependent students, only the parents' taxable income should be used to determine if the family meets the $15,000 income cutoff. This change would simplify the eligibility criteria for the simple needs test.

- Independent students without children should be excluded from eligibility for the simple needs test. Given the fact that such students have no dependents, there is no reason to exclude their assets from the analysis.

Simplification of the form

CSAP is studying an approach to form design which would greatly simplify the process for low income students. This is a bypass approach, such as that proposed by CSS for AFDC recipients several years ago. If the student meets the qualifications for the Simple Needs Test, revised as recommended above, the student would fill out the demographic and student status questions on the form. The student would then complete two simple questions about tax-filing status and taxable income. If the student meets the simple needs test criteria, he or she would be directed to complete the release questions, sign the form, and mail it to CSS. No income or asset information would be collected, and a zero parent contribution would be assumed. A standard $700 or $900 student contribution would be used to determine need.

This approach has the advantage of retaining a common form which can be used by all students, regardless of family income level or type of aid for which the student is applying. It targets the simplification of data collection at the very low income student for whom the current form is alleged to be a barrier. CSAP feels comfortable with this approach because of the known characteristics of current Simple Needs Test qualifiers, and also because of the current income contribution levels by family size as embodied in Table F of the 1989-90 CSS Manual for Student Aid Administrators, data from which are excerpted below:

TABLE H - Zero Contribution Levels by Total Income and Family Size

	Family Size		
Total Income	3	4	5
13,625 - 13,874	-10	-520	-750
13,875 - 14,124	10	-490	-750
14,125 - 14,374	50	-450	-750
14,375 - 14,624	90	-410	-750
14,625 - 14,874	130	-370	-750
14,875 - 15,124	200	-300	-750

As demonstrated in the table above, the only situation in which the contribution will be greater than $0 is when the total family income is close to $15,000 and there are no more than three in the family. Given the advantage of simplifying the application process for very low-income filers, CSAP members think that the financial aid community might be willing to accept the small loss of family resources that would otherwise be captured.

Another approach might be to develop a postcard application which could be used by community agencies that help low-income students with transition to postsecondary education. The postcard would permit students to identify themselves as qualifying for the Simple Needs Test, and be returned directly to the college or university to which they are applying for admission. The aid office could make an initial award without any further information and collect demographic information at the time of awarding. Upon verification of the student's qualification for the simple needs test, the institution could notify the central processor of the student's full eligibility for a Pell Grant.

Implementation of these and similar ideas would require changes in the Pell and CM need analysis sections of the Higher Education Amendments, as well as procedural changes within the Department of Education. CSAP members are anxious to learn from CSSA members whether there is general support for such a direction.

Simplification of the Need Analysis Methodology

CSAP has also undertaken a reevaluation of all the data elements used in need analysis, examining their contribution to the sensitivity of the assessment and to horizontal and vertical equity.

Examples of questions the committee will be trying to answer are:

- Should the system collect only the purchase year and purchase price of real estate and impute the value rather than asking the family to "guesstimate" the value?
- Is there a predictable correlation between income and assets that would allow us to collect income data and impute assets?
- If additional years of income data were collected, would it be less important to collect asset information, since most assets produce income?
- Is the breakdown of adjusted gross income reliable? Useful?
- Is untaxed income really a significant factor in the analysis?
- For which time period should student income be collected? Can other time periods be eliminated?
- Does the collection of medical/dental expenses or elementary/secondary tuition expenses add enough to the sensitivity of the analysis to justify the added complexity to the data collection effort?

- Is it necessary to collect demographic information every year? Could certain information be carried forward from one year to the next, allowing for corrections if the family's circumstances change?

Such questions are difficult to answer and require thorough study before final recommendations are possible. However, such questions must be answered before significant simplification of the methodology can occur. CSAP is anxious to gather ideas CSSA members may have about further simplification of the need analysis system.

January 11, 1989

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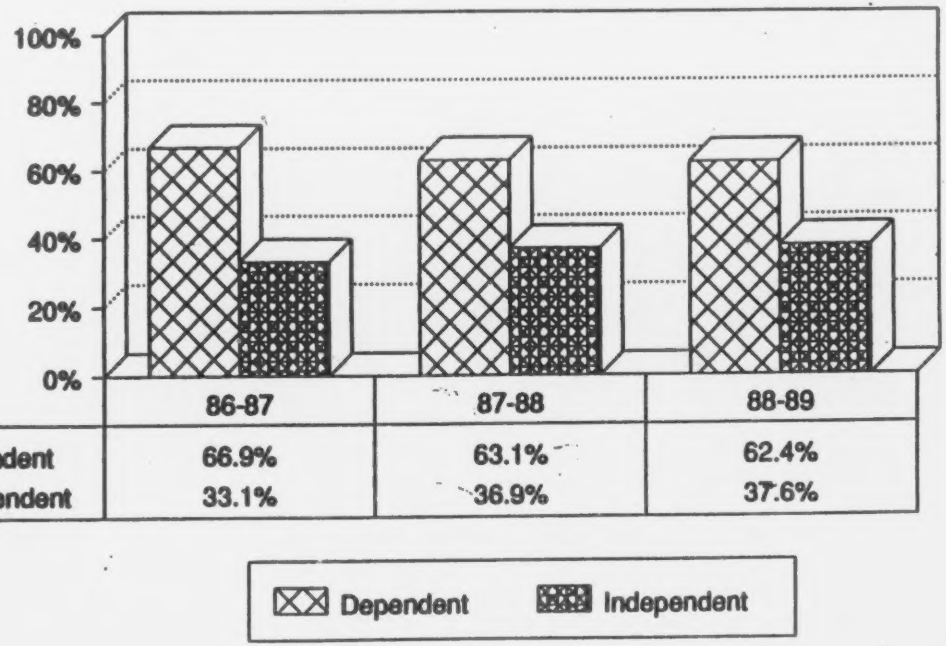
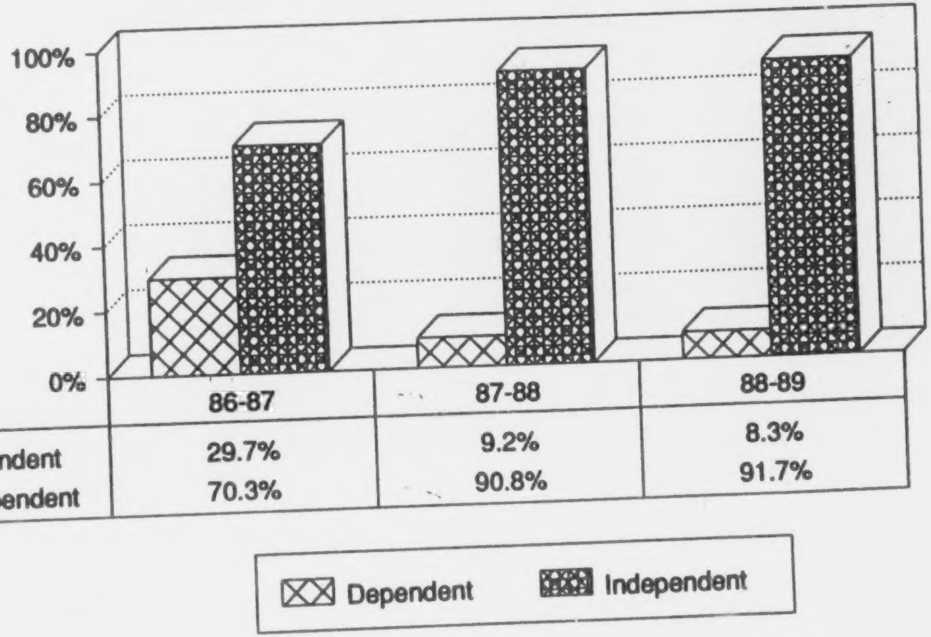
Proportion of Independent Students Increases Under New Definition



	86-87	87-88	88-89
Dependent	66.9%	63.1%	62.4%
Independent	33.1%	36.9%	37.6%

Source: Fall 1988 CSS ISD Report

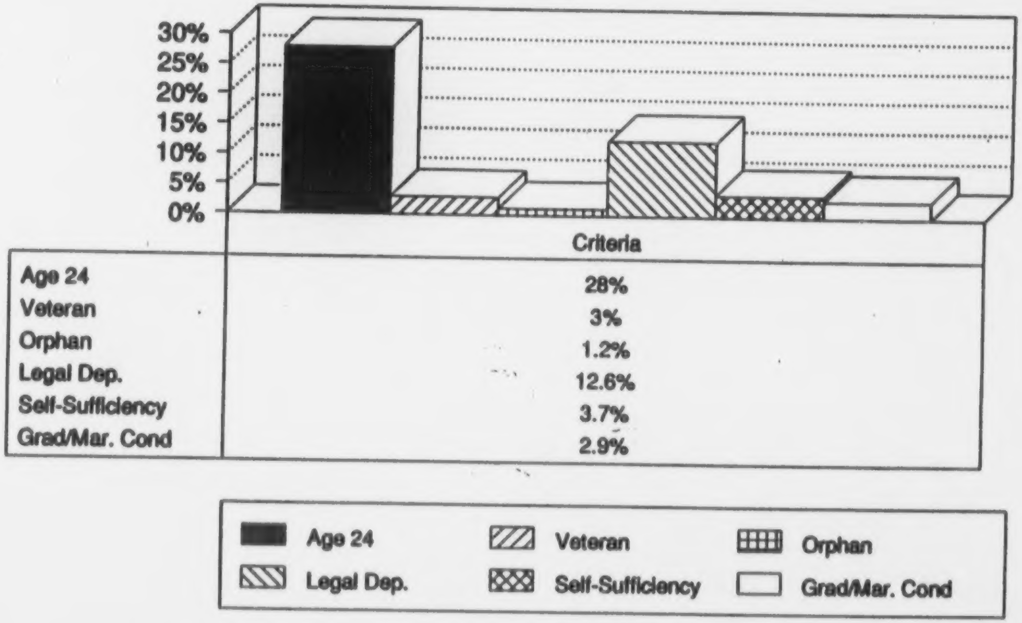
Proportion of Graduate Independent Students Grows Under Reauthorization



	86-87	87-88	88-89
Dependent	29.7%	9.2%	8.3%
Independent	70.3%	90.8%	91.7%

Source: Fall 1988 CSS ISD Report

Proportion of Students Who Meet Independent Student Criteria

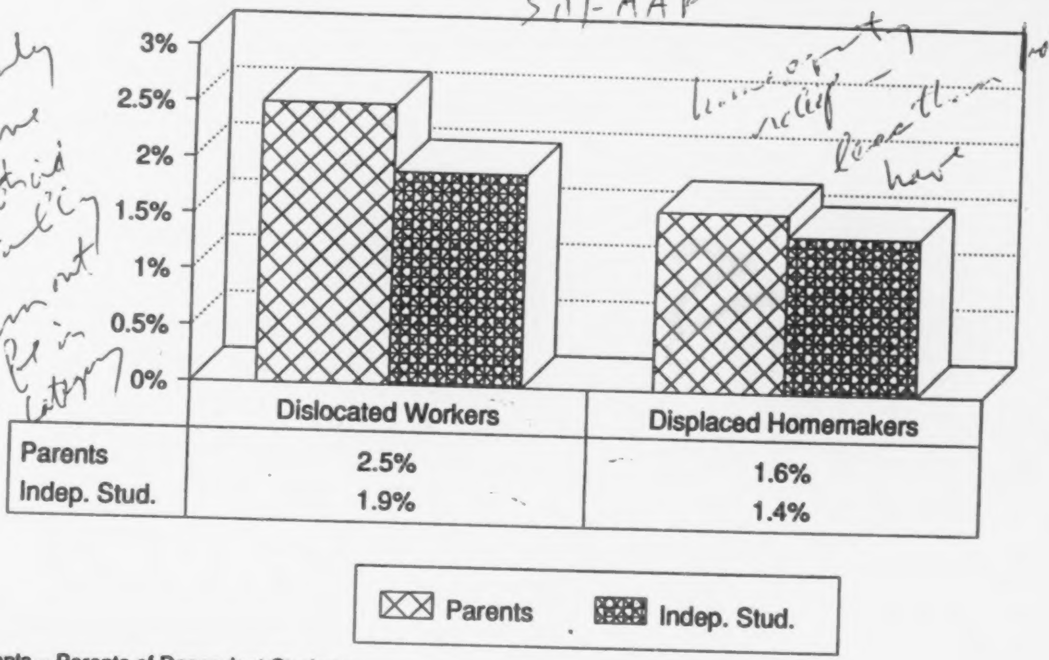


	Criteria
Age 24	28%
Veteran	3%
Orphan	1.2%
Legal Dep.	12.6%
Self-Sufficiency	3.7%
Grad/Mar. Cond	2.9%

Source: Fall 1988 CSS ISD Report

Frequency of Filers Who Report Status As Dislocated Workers, Displaced Homemakers

SUFAAP



	Dislocated Workers	Displaced Homemakers
Parents	2.5%	1.6%
Indep. Stud.	1.9%	1.4%

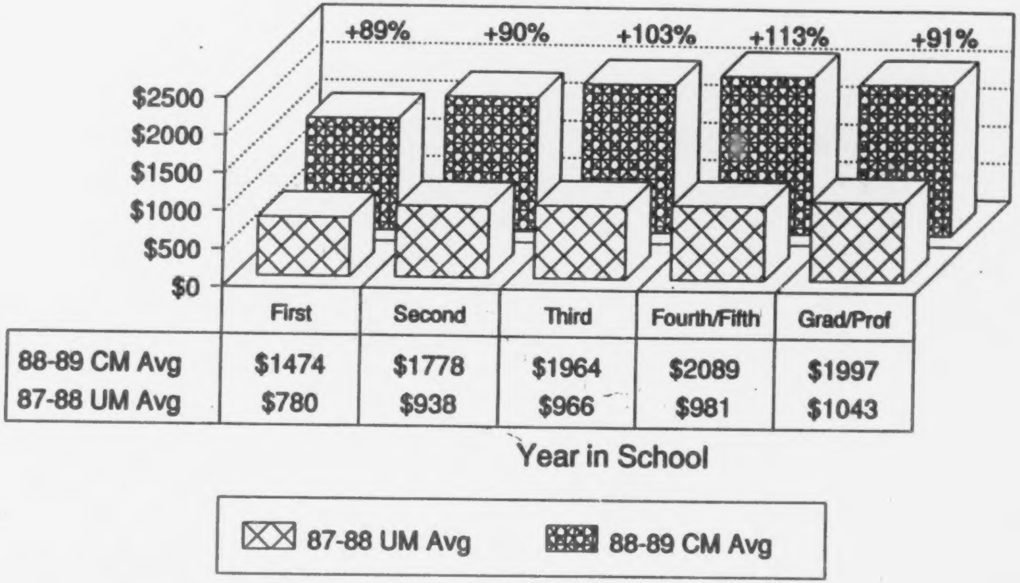
Only one third qualifying turn out to be in category

[illegible] relief – [illegible] than have [illegible]

Parents = Parents of Dependent Students
Source: Fall 1988 CSS ISD Report

Dependent Student Contributions Grow Because of Base Year Earnings

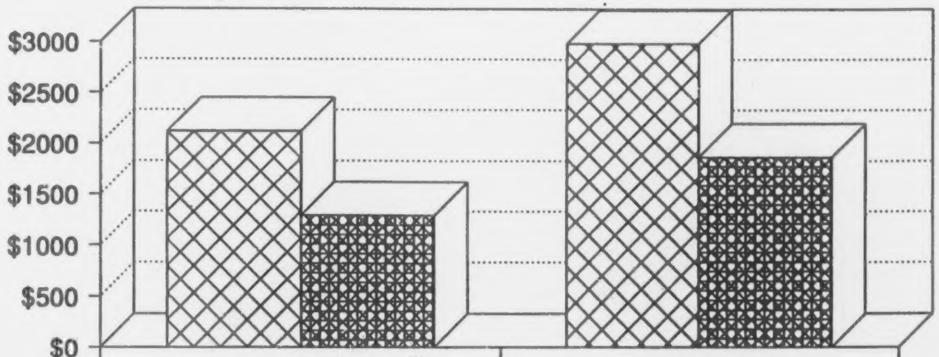
Contribution from Income



	First	Second	Third	Fourth/Fifth	Grad/Prof
88-89 CM Avg	$1474	$1778	$1964	$2089	$1997
87-88 UM Avg	$780	$938	$966	$981	$1043

Source: Fall 1988 CSS ISD Report

Dependent Student Base Year Income Significantly Higher Than Estimated Year



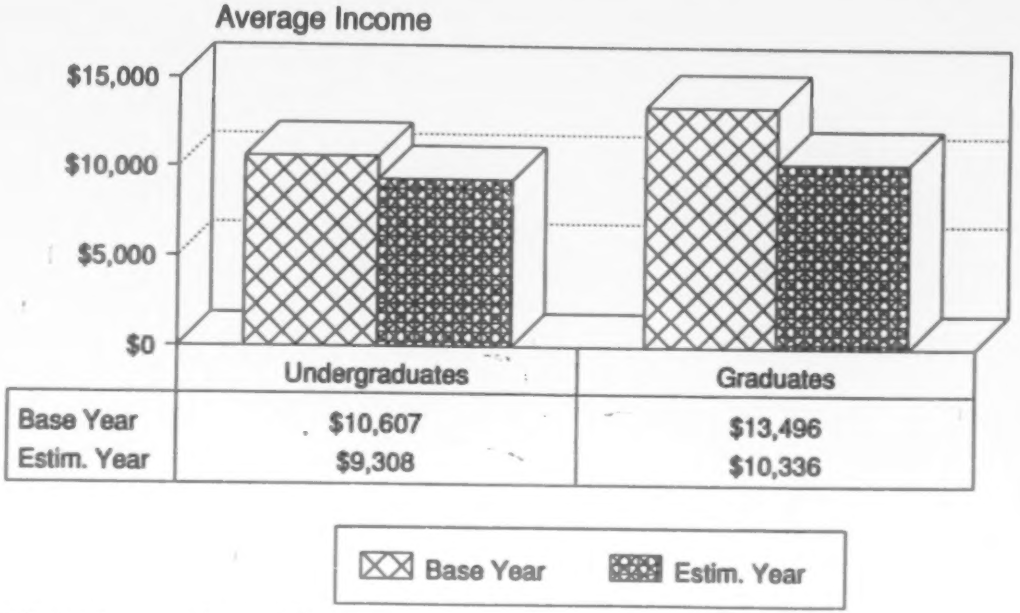
	Freshmen	Other Students
Base Year	$2122	$2988
Estim. Year	$1290	$1866

Estim. Year = Summer + Academic Year

Source: Fall 1988 CSS ISD Report

Impact of Base Year Income

Independent Filers' Reported Income

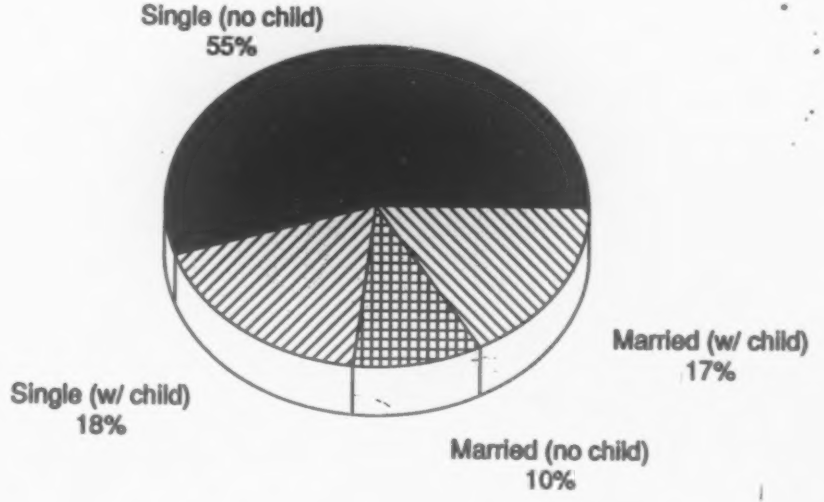


	Undergraduates	Graduates
Base Year	$10,607	$13,496
Estim. Year	$9,308	$10,336

Estim. Year = Summer + Academic Year

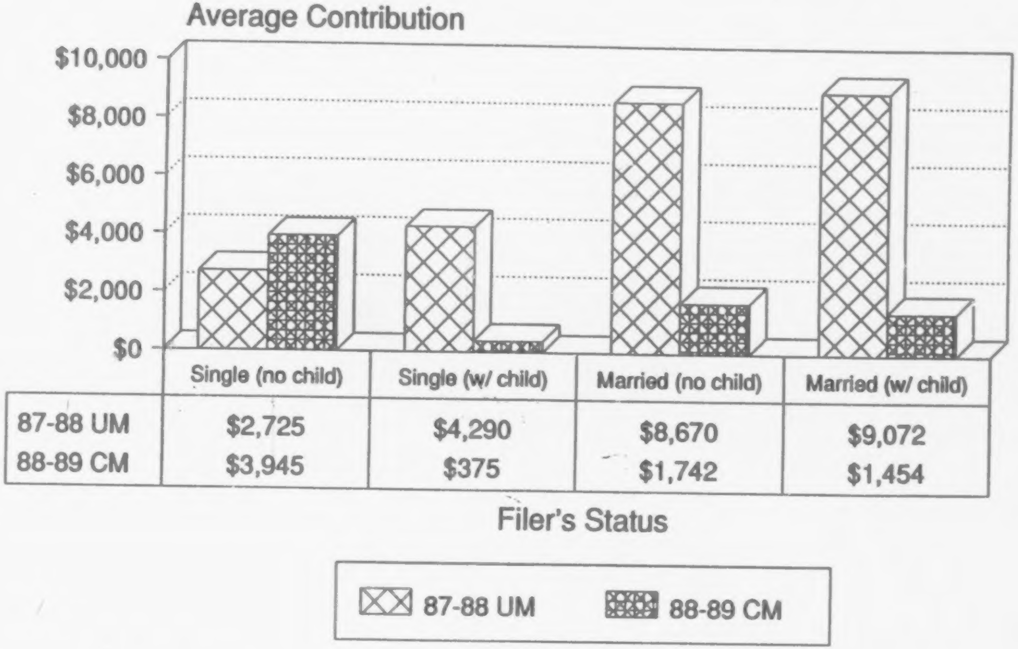
Source: Fall 1986 CSS ISD Report

Distribution of Independent Students



Source: Fall 1988 CSS ISD Report

Independent Student Contributions Are Significantly Lower Under CM



	Single (no child)	Single (w/ child)	Married (no child)	Married (w/ child)
87-88 UM	$2,725	$4,290	$8,670	$9,072
88-89 CM	$3,945	$375	$1,742	$1,454

Source: Fall 1988 CSS ISD Report

Average Student Contribution for Independent Students with Dependents

Base Year Income	Average SC
$0 - 1,499	$158
$10,500 - 11,999	$154
$15,000 - 16,499	$352
$19,500 - 20,999	$788

50% of sample had SC less than $200

75% of sample had SC less than $1200

Source: Fall 1988 CSS ISD Report

Simple Needs Test Qualifiers

Characteristics of Dependent Filers:

- 9% of CSS dependent families qualified
- Average PC = $76
  Average SC = $1386
- 52% reported taxable income
- Average total parent income = $8,548
- 30% reported home ownership
  Average home equity = $30,000

Source: Fall 1988 CSS ISD Report

Simple Needs Test Qualifiers

Characteristics of Independent Filers:

- 58% of CSS independent filers qualified
- Average SC = $1788
- 77% reported taxable income
- 61% reported cash, savings (average amount = $691)

Source: Fall 1988 CSS ISD Report

PREPARED STATEMENT OF GORDON M. AMBACH, EXECUTIVE DIRECTOR COUNCIL OF CHIEF STATE SCHOOL OFFICERS

Comments on the Proposed Educational Excellence Act of 1989

Administrative Responsibilities for the Several Parts

June 30, 1989

The proposed Act has a variety of patterns for administering the federal initiatives. Federal education programs are most effective when administered through state education agencies (SEA). This pattern enables coupling of federal with state resources and the use of existent state administrative capacity rather than creation of added federal bureaucracy. The following comments identify those parts of the Act which require revision to take advantage of existent state education agency capacity for federal program administration:

Title I, Part A, Presidential Merit Schools

The Merit Schools Program is implemented through the state education agency which prepares an application, sets the criteria, and makes a determination on which schools will be rewarded as merit schools. This administrative structure should be maintained.

Title I, Part B, Magnet Schools of Excellence

Under this program the U.S. Department of Education administers funds directly to local education agencies, intermediate education agencies, or consortia of such agencies. There is no provision for application under a state plan or for SEA review. There is no review of applications from local agencies by the state education agency. This program should be administered through SEAs.

Title I, Part C, Alternative Certification for Teachers and Principals

The administering agency for grants made by the Secretary of Education is "the State." The bill should explicitly make the state education agency the administering agency.

Title I, Part D, Presidential Awards for Excellence in Education

Under this program an application to participate is submitted to the Secretary by the governor of each state. A selection panel to choose the teachers is selected by the governor in consultation with the chief state school officer. This procedure departs from the well-established processes of teacher recognition which the states have been using for forty years. The current Teacher of the Year (TOY) program provides for selection of teachers who demonstrate outstanding performance by the SEA and a nonpartisan panel of education experts. The process is objective and efficient. No new administrative machinery is needed for this task. This program should be operated as part of the TOY process through each SEA each year.

(Continued)

Title II, National Science Scholars

Under this program the President designates scholars who are nominated by the states. Each state nominates at least four but not more than ten students from each Congressional district within the state. The proposal is silent on which entity within the state handles the nomination and what process is set up in each Congressional district for making the nominations. No reference is made to the SEA. The program should be operated by the SEAs in conjunction with local education agencies (LEAs).

Title III, Drug-free Schools, Urban Emergency Grants

Under this program the Drug-free Schools and Communities Act of 1986 is amended with a special provision for urban emergency grants. The Secretary of Education awards such grants to local education agencies with no review or comment by the SEA. There is no requirement to connect these grants with the state plan and administration for the drug-free schools federal program. This title should provide for SEA review and comment to the Secretary on each proposal as it relates to the state plan before any award by the Secretary.

The Council of Chief State School Officers commends President Bush for advancing the legislative initiatives of the Educational Excellence Act of 1989, S. 695. The Council commends, also, Chairman Pell, Senator Kassebaum and the members of the Subcommittee on Education, Arts and the Humanities for holding the hearing June 22, 1989, for presentation of the Administration's case for the program and the opportunity to comment on the proposals.

Our Council believes that the objectives which underpin the President's program are best achieved through significant amendments to and increases in funds for current federal programs such as Chapter One, Public Law 94-142, bilingual education, vocational education, magnet schools and other statutes which provide access to education of quality. The Administration's proposals, with modification, can provide important additions to current programs if two conditions obtain: first, these initiatives must not draw limited resources from existing, proven programs; second, the initiatives must be linked carefully to current federal program priorities and structures and to state and local efforts and reforms addressed to advancing the quality of education.

Overview

The centerpiece of S.695 is Title I, Part A, Presidential Merit Schools. To assure effective use of federal funds for such a recognition program, it is essential to connect the concept and use of merit awards with the current, central federal program, Chapter 1 of the Hawkins-Stafford Act. We advance suggestions to accomplish this below.

We also urge amendments to several other parts of S.695 to provide that the administration of these parts will efficiently and effectively take advantage of the capacities of state education agencies as partners with the federal government in the administration of federal education programs. These amendments are particularly important for administration of the Presidential Awards for Excellent Teachers.

Merit Schools

We support the concept of recognizing meritorious performance. We urge that this concept be joined with the recently enacted provisions for Chapter 1 program improvement of the Hawkins-Stafford Act. This $250 million program of awards should be joined with the procedures for identifying schools most needing improvement in order to reward those schools which make significant gains through program improvement plans. This would provide a powerful incentive for education reform and would reward accomplishment where most needed in American education.

Public Law 100-297, the Hawkins-Stafford Act, provides, for the first time, a means for state and local education agencies (SEA and LEA) to identify those schools receiving Chapter 1 funds which are not achieving net gains or which are losing ground in student performance. The law requires LEAs and SEAs to take steps for improvement school by school. The merit award program should reward those schools which make significant improvement.

State education agencies are working this school year with committees of local practitioners to develop statwide plans to implement the new requirements. Schools in need of improvement are being identified based on current data, and in the fall of the 1989-1990 school year, the schools identified in each of the states will work with their local education agency through a plan for improvement. Over the years, in each state, this process will provide performance data to enable determination of progress, or lack of it, in the schools most needing help. This process is ready-made for use in identifying the real success stories of improvement. These successful examples are exactly the ones which should be recognized through the merit schools program and rewarded with funds to enable further progress.

By coupling together Chapter 1 program improvement and merit schools, the President and Congress can meet the dual objectives of focussing federal spending on economically and educationally disadvantaged students and encourage hard work and achievement by financial incentives.

The authorization of funding for merit schools under Chapter 1 should include a trigger, similar to that adopted by the Senate Labor and Human Resources Committee recently in reporting out the Smart Start Program. This would link appropriations for merit school recognition to the total Chapter 1 appropriation and, particularly, the full funding of state program improvemeent services. Connecting these authorizations would advance the goal Congress adopted almost unanimously--to serve all children eligible for Chapter 1 by 1993 and to assure support and incentives are available for those schools most in need of improvement.

State Administration of the Initiatives

To assure maximum effectiveness in administration of federal education programs, it is essential to use existent state education administrative capacity. Recommendations for administration of the several parts of the proposed Educational Excellence Act of 1989 are summarized in the attached comments.

Our Council appreciates the opportunity to submit a statement on the President's initiatives. We have draft amendments for use of Subcommittee members and staff and would welcome the opportunity to assist with this legislation.

Senator Pell. The hearing is adjourned.

[Whereupon, at 1:10 p.m., the subcommittee was adjourned.]